Performance Management Framework

For Victorian Government Departments

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Victoria State Government | Treasury and Finance

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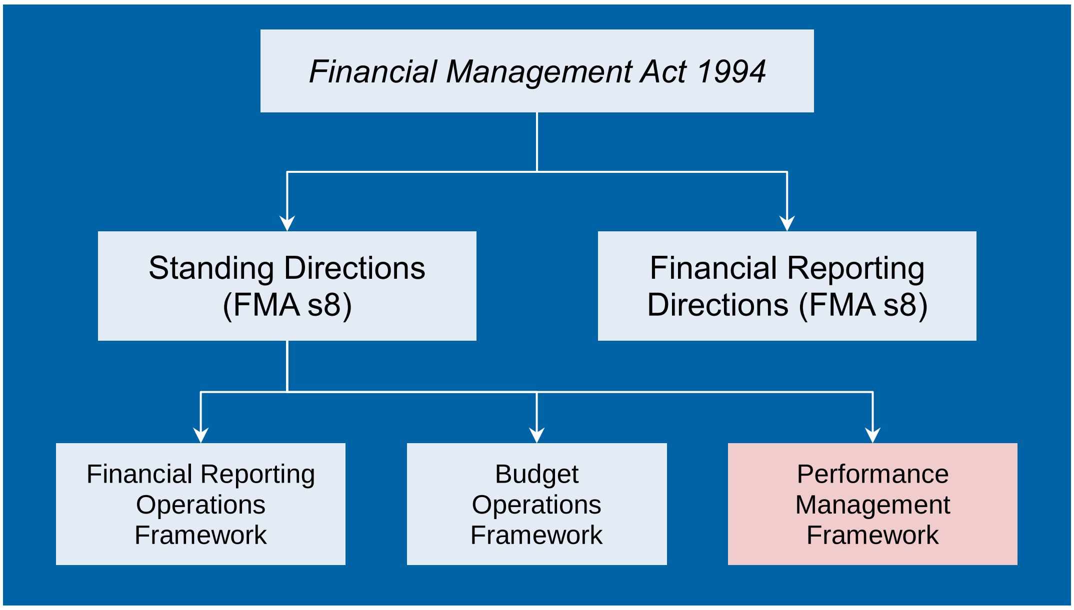
1. Introduction

Overview

This document sets out the mandatory requirements for performance management (including associated annual state budget process requirements) and guidance to help Victorian Government Departments understand and work within the Performance Management Framework (PMF).

The PMF is central to the governance environment that ensures public sector accountability for the investment of public money, and that investments are efficient, effective and deliver value for money outcomes for Victoria.

Figure 1: The Performance Management Framework within Victoria's Financial Management framework



Section 40(1)(a) *Financial Management Act 1994* drives the management and reporting of service delivery by Victorian public sector entities and this is supported by requirements in the *Standing Directions of the Minister for Finance*.

> The PMF is authorised through section 4.1.2 *Performance Management Framework for Portfolio Departments* of the Standing Directions and is operational from 1 July 2016. 'The Accountable Officer of a Portfolio Department must ensure that the Portfolio Department applies the *Performance Management Framework issued by the DTF Deputy Secretary*.'
>
> Section 2 *Planning for results* of the *Performance Management Framework for Portfolio Departments* was updated in June 2017. Departments are required to apply these changes from 1 July 2017.

The PMF should be read in conjunction with the Budget Operations Framework (BOF) and the Financial Reporting Operations Framework (FROF), which are authorised through the Standing Directions.

1.1 Purpose of the Framework

The PMF enables Victoria's public finance system to better meet the needs of the community, Parliament and Government, by establishing the platform for forward-looking and results-based resource management and service delivery in the Victorian public sector.

The PMF provides a structure for government and public sector planning, budgeting, service delivery, performance monitoring, reporting and accountability. It also helps to ensure departments:

- have clearly defined objectives;
- collect performance information to assess the extent to which objectives are being met;
- have clearly specified goods and services (outputs);
- have standards to which services will be delivered; and
- provide transparent and rigorous information on performance.

Further, the PMF supports an annual service delivery statement between the Government and departments for the outputs purchased and funded, and the receipt of revenue for services delivered.

1.2 Structure of the Framework

The PMF consists of two components:

- mandatory sections; and
- non-mandatory guidance material.

Mandatory sections must be complied with by all Victorian Departments. More detailed mandatory requirements are also found at Attachments 7 and 9.

Guidance material provides supporting information in relation to the interpretation and implementation of mandatory requirements, but is not itself mandatory. More detailed guidance can be found at Attachments 1-6 and Attachment 8.

1.3 Performance management cycle

The Strategic Management Framework (SMF), issued by the Department of Treasury and Finance (DTF), guides the Victorian public sector on the key elements of a better practice management cycle, which is structured around five core elements of public sector activity: analyse and plan; allocate resources; implement; measure, monitor and evaluate; and report.

Figure 2 adapts the SMF for performance management and summarises the key elements and accountability documents for performance management at whole of government and department level.

Figure 2: performance management cycle

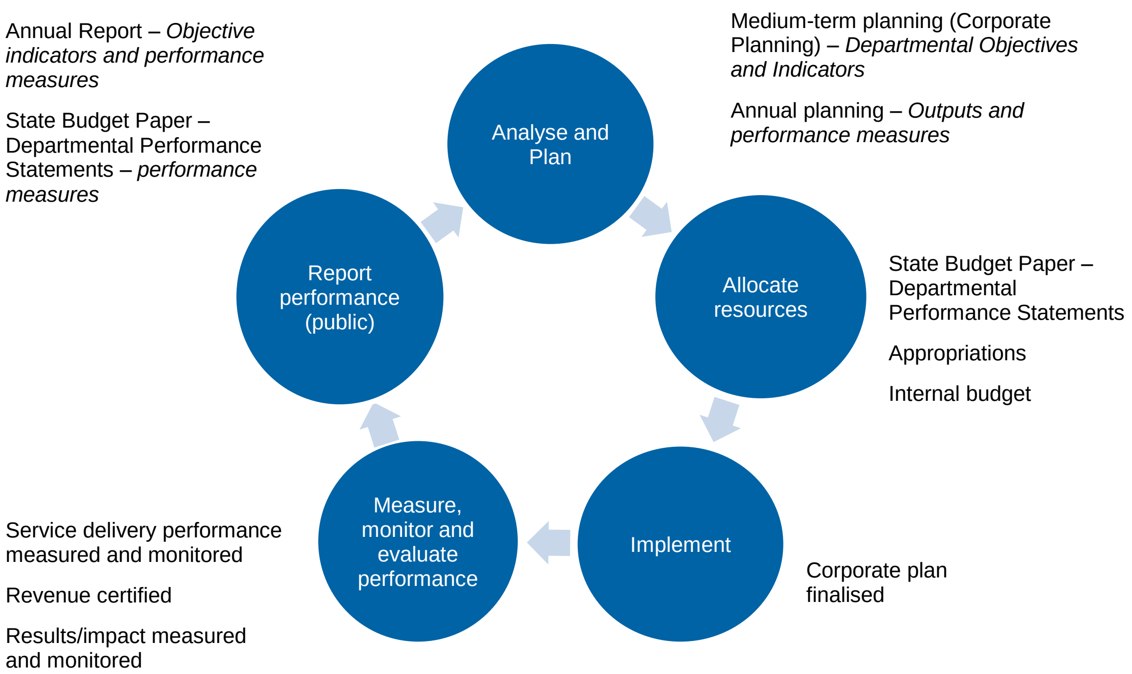
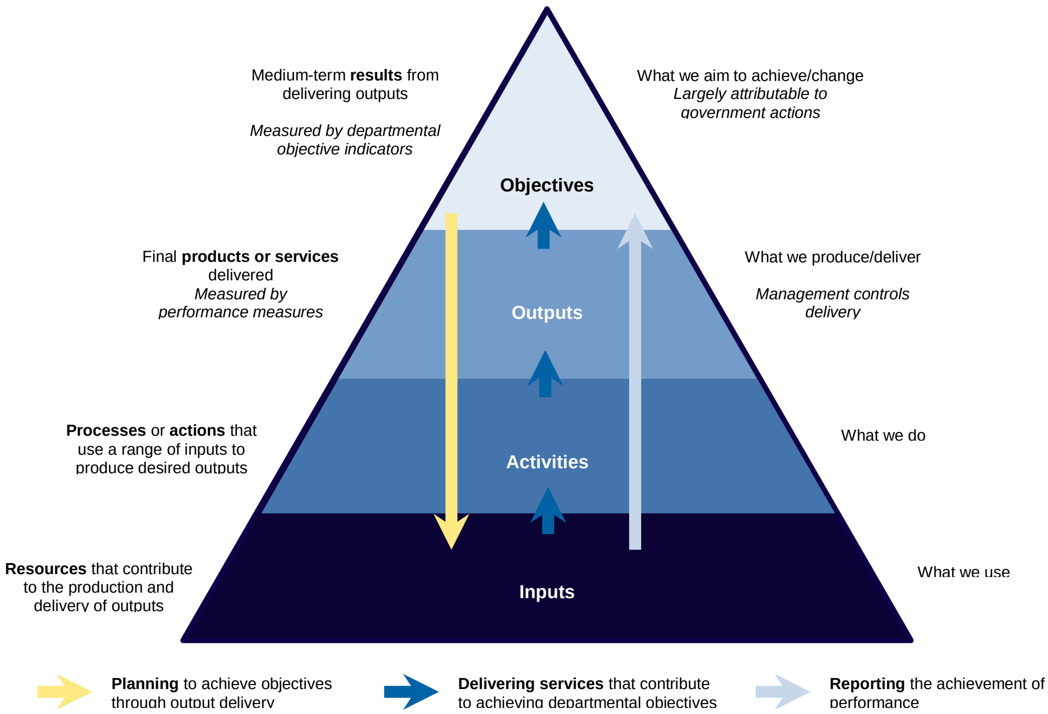


Figure 3 summarises the key concepts for measuring and managing performance, based on logic model theory.

Figure 3: Conceptual model of the Performance Management Framework



1.4 Roles and responsibilities

Treasurer

The Victorian Treasurer is responsible for tabling the annual state budget which includes departmental performance statements and the Appropriation Bill. The Treasurer also endorses the amount of appropriation to be applied for each department as part of the revenue certification process at the end of each financial year.

Minister for Finance

The Minister for Finance is responsible for performance management from a whole of government perspective and plays a number of roles in the PMF and the related activities of departments, including:

- specifying the minimum requirements for performance management;
- on behalf of Government, final agreement with relevant Portfolio Ministers of the departmental performance statement, including departmental objectives, indicators, outputs and performance measures;
- specifying reporting requirements for the annual report of operations including reporting performance; and
- the annual revenue certification process.

Portfolio Ministers

Portfolio Ministers ensure their respective portfolios contribute to the achievement of government objectives and priorities by approving corporate plans and portfolio specific content in the departmental performance statement (contained in the budget papers). Portfolio Ministers then report performance against these statements in departmental annual reports (including the report of operations).

Portfolio Ministers are responsible for specific performance management of their portfolios.

Parliament

Parliament holds executive government to account for its overall performance and plays a crucial role in authorising the annual Appropriation Bill following the annual budget.

In particular, the Parliamentary committee system provides a way of achieving greater public input into issues being considered by the Parliament.

To strengthen accountability and transparency for performance management, the Public Accounts and Estimates Committee (PAEC), at the invitation of the Minister for Finance, reviews output performance measures that departments propose to discontinue or substantially change through the annual budget process.

Departmental Secretaries (Accountable Officer)

Departmental Secretaries support Portfolio Ministers in achieving the Government's objectives and priorities (including oversight of departments and departmental portfolio public bodies).[1] This is done through performance management activities, such as approving departmental plans, delivering outputs to the agreed performance standards, and supporting Portfolio Ministers to develop the departmental performance statement, corporate plan and annual report.

Portfolio Departments (Departments)

Departments support the Secretary and Portfolio Ministers in achieving the Government's objectives and priorities. This is done through appropriate performance management activities, such as portfolio planning, delivering outputs to the agreed performance standards and preparing annual reports.

Public bodies

Public bodies determine and undertake appropriate performance management activities, deliver services in accordance with plans and the body's powers and functions, and prepare the annual report. Where the requirements of the PMF are inconsistent with requirements in an agency's establishing legislation, the latter takes precedence to the extent of the inconsistency.

Department of Treasury and Finance

DTF provides support to the Minister for Finance in the agreement and publication of the departmental performance statements in the budget papers. This includes reviewing the relevance of output measures, departmental objectives and indicators. DTF also provides advice to the Minister for Finance on the quality of departmental objectives, indicators, outputs and measures published in departmental performance statements.

DTF does not determine the content of final departmental performance statements. The departmental performance statement is an agreement between the Minister for Finance (on behalf of government) and the relevant Portfolio Minister, based on their respective departments advice.

DTF also reviews departmental output performance and provides analysis to government on key areas of service delivery that constitute performance risks for government and recommends how to address these performance issues. As part of this assessment, DTF provides advice on revenue certification to the Minister for Finance and the Treasurer.

DTF also supports the Minister for Finance in the ongoing management of the PMF through consultation with key stakeholders.

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[1] Section 13A of *Public Administration Act 2004* imposes responsibilities on Department Heads, among other things, to advise the public service body Minister(s) on matters relating to a relevant public entity, and to work with and provide guidance to public entities to assist on matters of public administration and governance. Section 13A also provides that a relevant public entity must provide any information required by the Department Head to facilitate the advisory responsibilities.

Departments are encouraged to consider the contribution of other departments and to work together to progress the Government's objectives and priorities for the community.

2. Planning for results

Overview

Planning enables government, ministers and departments to prepare for future opportunities and challenges. Planning helps identify what is required to deliver services and infrastructure to achieve desired results.

Planning involves:

- aligning a department's strategic direction with government policy objectives and priorities and/or Parliament's objectives set out in enabling legislation;
- assessing whether current departmental activities and outputs efficiently, effectively, and economically contribute towards achieving departmental objectives and government priorities; and
- developing strategies to deal with opportunities and risks to improve results for Victorians.

Managing risk is integral to planning and departments should refer to the *Victorian Government Risk Management Framework* (VGRMF) which describes minimum risk management requirements.

Departments undertake planning to drive improved service delivery and help meet government priorities.

Components of a comprehensive planning framework		
Long-term planning 5+ years	Process to identify the long-term environment facing the department, and formulate the department's high level, long-term strategy for contributing to achieving government's broad objectives and sustainable service delivery	**Mandatory Requirements** refer Chapter 2.3
Medium-term planning[2] 4 years	Process to formulate the department's strategies to deliver services over the medium-term to achieve departmental objectives guided by government objectives and priorities	**Mandatory Requirements** refer Chapter 2.2
Departmental Performance Statements	Service delivery (output performance measures), articulates the goods and services the department will deliver. Impact (departmental objective indicators) articulates the medium-term impacts on departmental objectives that the outputs are expected to achieve.	**Mandatory Requirements** refer Chapter 4.2
Business Planning 1 year	Process to formulate how the department intends to deliver outputs	**Good Practice** refer Chapter 2.1

[2] In meeting the medium-term planning requirements, the terms corporate plan and strategic plan are interchangeable.

2.1 Short-term planning

Guidance

Short-term planning goals are published in the annual departmental performance statement (specifically the outputs/deliverables and performance measures) which provides the basis for annual performance reporting on the delivery of outputs that contribute to departmental objectives. Internally, the business plan sets out the operational processes, staffing arrangements and budgets allocated to achieve the relevant performance goals for the year.

Departments could also oversee the development of more specific plans for portfolio agencies to assist in implementing departmental strategies to deliver the agreed outputs consistent with the requirements for Agency planning under Standing Direction 4.1.1(a) to (d).

2.2 Medium-term planning

Mandatory requirements MEDIUM-TERM PLANNING
2.2 Medium-term planning 1. The **Accountable Officer** must ensure a medium-term plan is prepared annually, covering a rolling four-year period (budget and forward estimates), consistent with government objectives, priorities and budget decisions. 2. As a minimum, the medium-term plan must contain the following: • About the department (nature and scope of the department's functions). • Strategic direction. • Overview of operating environment. • The department's objectives, indicators, outputs and measures consistent with the state budget. • The key challenges impacting on the department's ability to achieve its objectives and deliver outputs. • Key initiatives the department will implement to achieve its objectives. • The department's asset, workforce and financial outlook consistent with the state budget. • Approved asset investment programs and targets over the next four financial years. • Approved use of accumulated State Administration Unit surplus balances on additional services and infrastructure. • Linkages in planning across government(s) and key stakeholders the department will engage with to ensure efficient, effective, economical and timely delivery on policies and priorities. 3. The **Accountable Officer** must approve and publish the medium-term plan on the department's website by 31 July each year, or the next business day if 31 July falls on a public holiday or weekend.

Guidance

Consistent with the requirements for Agency planning under Standing Direction 4.1.1(a) to (d), medium-term planning helps departments identify and deliver outputs and infrastructure that will contribute to efficient, effective, economical and timely achievement of departmental objectives and delivery of government priorities over the medium-term (budget and forward estimates).

Much of the content of the medium-term plan will be consistent from one year to the next. However, some sections may require an update to reflect new key initiatives, challenges or priorities facing the department. Departments have the flexibility to determine the structure of their medium-term plan which best suits their needs.

The medium-term plan can be published online in the format preferred by the department (e.g. Word, PDF or interactive web format).

Medium-term plans should be reviewed and updated as required.

Further details on the four stages of the medium-term planning process can be found in **Attachment 2**.

Defining key initiatives

There are two types of key initiatives which should be outlined in the departments' medium-term plan:

- New programs or projects the department or Minister has chosen to fund internally to achieve a specific purpose; or
- Specific programs or projects detailed in the Budget, Budget Update or Pre-Election Budget Update. These can include ‘asset initiatives’, ‘output initiatives’, ‘revenue initiatives’, revenue foregone initiatives’ and ‘expenditure reduction initiatives’.

The expected outcomes of all key initiatives should be described.

Links to the annual report

Achievement against key initiatives, departmental objective indicators and output measures identified in the departmental performance statement and medium-term plan is recorded in a department’s annual report. The annual report is a key accountability mechanism for Parliament, as it provides data and analysis to assess whether departments have met their annual and medium-term goals.

Objective indicators increase focus on medium-term performance in the annual report. Reporting performance against indicators enables departments to demonstrate continuous improvement in the overall effectiveness of services. Publication of the medium plan provides a ‘clear line of sight’ between planned and actual performance. *Chapter 7 Reporting performance* provides further details on the reporting requirements to DTF and to Parliament.

2.3 Long-term planning

Mandatory requirements LONG-TERM PLANNING
2.3 Long-term planning 1. The **Accountable Officer** must undertake long-term planning (five years plus) to assess the future operating environment, demand pressures and understand future service delivery and infrastructure needs. 2. All departmental long-term planning must be supported by appropriate modelling and scenario analysis.

Guidance

The Accountable Officer should maintain sound governance arrangements for long-term planning. Long-term is defined as a minimum time horizon of five years (i.e. beyond the forward estimates period).

Long-term planning seeks to:

- assess the future operating environment and demand pressures and understand future service delivery and infrastructure needs;
- identify strategies to deal with challenges or risks within fiscal constraints;
- pursue the department's desired objectives;
- identify opportunities to reform and improve service delivery efficiency; and
- address service delivery performance, financials and asset investments.

Departments that already undertake planning (or equivalent) are not required to additional planning to meet section 2.3 above.

To meet the mandatory requirements, departments should undertake fit for purpose long-term planning. Production of a physical plan is not necessary. Rather, departments should focus on demonstrating that long-term planning activities have been undertaken which are suitable to the circumstances of the department. Evidence of the planning activities is sufficient to demonstrate compliance. Departments that produce a plan can use this to demonstrate compliance with these requirements.

Case study: Local government long-term planning in WA

Western Australia is an example of better practice, whereby it requires all local governments to prepare a strategic plan with an accompanying financial plan, covering ten years.

The strategic plan:

- establishes the community's vision for the local government's future, including aspirations and service expectations; and
- drives the development of local government area/place/regional plans, financial plans, resourcing and other informing strategies, including workforce, asset management and services.

To develop the financial plan, local government:

- undertakes data gathering, identification of data sources and indices, and refers to up-to-date asset management plans, workforce plans and other existing plans and strategies;
- develops an initial 10 year model comprising revenue, expenditure and capital works without any changes to current policy – based on the current year's annual budget;
- agrees a range of assumptions that can be used in the development of alternative models (covering variables such as estimated growth and demographic changes, inflation forecasts, alternative rate increases, likely interest rate movements, debt funding options and alternative service delivery

The Queensland Department of Health's *Guide to health service planning*[3] is a step by step guide departments could use as a reference in undertaking long-term service planning.

The results of long-term planning should be reviewed and updated as required.

Departments may undertake department wide planning or plan for only one or multiple sectors. Where sector specific planning activities are undertaken, the department should ensure planning activities are consistent. Where appropriate, links to other sector planning should be documented.

Modelling and scenario planning

Modelling and scenario planning helps departments in identifying strategies to address future service needs. Section 3.2.1(f) of the PMF requires departments to develop a model for the costing of outputs which is available to DTF on request.

Tip

Scenario planning involves modelling the impact of various responses from a service delivery and financial perspective over a time horizon. For example, departments delivering large infrastructure programs are likely to require longer planning horizons. Critical considerations in long-term planning include demographic changes, service demand growth, revenue projections and financial sustainability of services.

Analysis of whether current services provide the best mix of strategic responses to meet the Government's priorities should lead to development of alternative scenarios. This includes reform of service delivery, such as introduction of contestability or commissioning. Over time, these reforms should be developed to the point that they are ready for government consideration and, once approved, should feed into medium-term planning processes. Long-term planning can help departments measure the change in priorities they aim to achieve in the longer term.

Modelling and scenario analysis should include estimated budgetary and financial projections. It should also document data sources, unit cost, population growth and demand pressure assumptions.

In accordance with Direction 2.4.6.2, the departmental Chief Finance Officer may be asked to provide to DTF modelling and scenario analysis supporting long-term planning. This information may be requested in support of departmental funding requests through the annual budget process. Such a request will typically be made in writing by the Minister for Finance or the Secretary of the Department of Treasury and Finance.

[3] https://www.health.qld.gov.au/__data/assets/pdf_file/0025/443572/guideline-health-service-planning.pdf

3. Developing objectives, outputs and performance measures

Overview

This chapter covers the development and specification of good quality performance information. The requirements for submission and endorsement of departmental performance statements is covered in *Chapter 4 Budget process*.

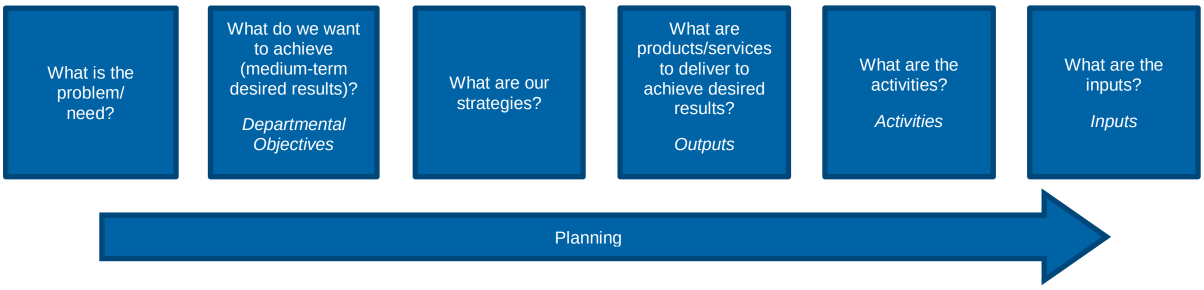
Departmental objectives are the effects or impacts a department seeks to have on clients, the community and other key stakeholders (stakeholders). Departments need to be clear about what they are trying to achieve. Establishing departmental objectives and strategies during planning helps the department focus on achievable goals and reach the best possible results from the resources available. Departmental objectives are progressively achieved over a number of years and objective indicators show the extent to which department achievements are meeting objectives.

The practice of aligning the goods and services (outputs) to be delivered with departmental objectives seeks to ensure outputs benefit recipients.

Output performance measures specify a department's expected service delivery performance each year. The content of departmental performance statements in the budget papers includes the requirement under section 40 of the *Financial Management Act 1994* for the annual Appropriations Bill to be accompanied by departmental statements of goods and services to be produced or provided.

The following 'results' logic seeks to help with the specification of departmental objectives and outputs.

Figure 4: 'results' logic map



3.1 Objectives and objective indicators

Mandatory requirements OBJECTIVES AND OBJECTIVE INDICATORS
3.1 Objectives and objective indicators
3. The **Accountable Officer** must ensure the objectives: (a) align with government objectives and priorities; (b) have a clear and direct link with outputs; (c) represent the totality of the department’s output budget; and (d) only cover those responsibilities the department is funded to execute.
4. The **Accountable Officer** must ensure the objective indicators: (a) demonstrate the contribution of departmental outputs to the achievement of the objective through performance data; (b) use existing and comparable data series, and use data that is regularly available (in the case of outputs that solely deliver policy advice to government, qualitative description rather than data series may be used for reporting); (c) identify the baseline (note exemption in (b) above for policy advice); and (d) report performance in the department’s annual report in accordance with the Financial Reporting Directions and Model Report for Victorian Government Departments (refer to Chapter 7 Reporting performance).

Guidance

Specifying departmental objectives

Departmental objectives have a medium to long term (i.e. four years or more) focus. They reflect results sought, and represent the extent of the Government’s service delivery ambitions in this time frame. They represent the change government wishes to deliver for the benefit of Victorians.

Departmental objectives help shape the department’s output mix, therefore, must clearly link with outputs. Where an output delivers goods and services to other departments and agencies (i.e. internal to government), the objective would reflect this impact appropriately.

Objectives are not individual activities or strategies. Focusing on the ends, rather than the means, provides departments and agencies with the flexibility to explore alternative service delivery strategies.

It is important that departmental objectives provide a comprehensive coverage of the department’s portfolio of responsibilities, as they assist government make decisions on output delivery based on what the outputs are intended to achieve.

Departmental objectives are owned by Ministers, and Ministers are accountable for departmental performance in their delivery.

For reporting and accountability purposes, departmental objectives are included in departmental corporate plans and performance is reported in the annual report of operations. They are also linked to outputs and reported in departmental performance statements in the State budget papers.

Useful departmental objectives clearly articulate the intended results of output delivery. At their core, departmental objectives should provide:

- clear identification of achievements;
- clear identification of beneficiary;
- clear identification of the desired quality of the achievement; and
- a clear medium term timeframe.

Departmental objectives reflect results that can be attributed to one or more government output or service.

Further guidance on developing departmental objectives can be found in **Attachment 3**.

Specifying departmental objectives indicators

Departmental objective indicators help to assess how effective a department has been in achieving the department's objectives, and the Government's agenda over the medium to long term.

Each departmental objective may require a small set of indicators to clearly demonstrate that the objective has been achieved and avoid misinterpretation of results. Therefore, there should be indicators to cover key aspects of each objective. Indicators will also provide information for effective management decisions to improve results.

Where indicators are supported by clear logic around results, trends in objective indicators will help demonstrate that the department's outputs are contributing to longer term government objectives.

Good quality departmental objective indicators:

- provide a coherent link between a single objective and its supporting outputs;
- indicate the impact that delivery of outputs is having on the community and is thereby helping to achieve departmental objectives;
- indicate results of government action rather than external factors;
- remain relevant over the medium to long term so progress can be tracked and compared;
- are free of perverse incentives and balanced with other departmental objective indicators;
- ideally rely on existing, regularly updated data streams; and
- avoid overly burdensome reporting processes.

Further guidance on developing departmental objective indicators can be found in **Attachment 4**.

3.2 Outputs and performance measures

Mandatory requirements OUTPUTS AND PERFORMANCE MEASURES
3.2 Outputs and performance measures 1. The **Accountable Officer** must ensure: (a) the identification of outputs required to best achieve departmental objectives and develop performance measures that can demonstrate service efficiency and effectiveness, and cover all major activities of the output; (b) the specification of a meaningful mix of quality, quantity, timeliness and cost performance measures for each output; (c) major policy decisions (i.e. to fund a new initiative or change the level of service) are reflected in performance measures; (d) the cost of delivering each output is identified when determining the output price in accordance with the departmental funding model (refer to *Chapter 4 Budget process*). All departmental operating costs must be allocated to outputs (refer to *Attachment 8 on methodology for output costing*); (e) outputs and performance measures enable meaningful comparison and benchmarking over time, and where possible across departments and against other jurisdictions; and (f) the data and methodology underpinning performance measures are auditable and verified for accuracy including the methodology applied to the costing of outputs. This information must be made available to DTF on request.

Guidance

Specifying outputs

Departmental outputs include products and services delivered to the community by, or on behalf of, a department or public body (e.g. education, health services), or products and services provided to other departments (e.g. services provided by the Victorian Public Service Commission to support the public sector). Knowing what services or products the recipient requires is the basis for defining which outputs to deliver.

Level at which outputs should be defined

The level of activity at which an output is defined, varies between departments.

In general, an output should capture the full activities and costs that make up a service that government purchases from a department. Activities (i.e. what we do) that contribute to the output should not be defined as individual outputs.

Outputs describe a distinct product or service that a department provides to an external customer (or to another department). For example, Dental Services provides far ranging and diverse services (from school dental care to emergency dental care), and would be considered too large an output. While specification at a detailed program/activity level (e.g. provision of denture services) would be considered too specific for departmental reporting.

An output should not be so large that it reduces transparency and accountability. Outputs should be specified at a level that that will:

- assist government to determine the outputs it will purchase;
- best inform central government decision making (i.e. Cabinet and sub-committees);
- be consistent with the view of outputs used by departments and agencies for internal resource management;
- provide effective reporting to Parliament and stakeholders (e.g. service advocates).
- enable government to determine whether the goods and services it purchases from departments provide value and contribute to departmental objectives

In addition, final output specification should enable comparison of the performance of actual and potential output providers. This allows government to consider whether or not there are alternative providers for the output, and to compare/benchmark the department's output with alternative providers.

Further guidance on developing departmental outputs can be found in **Attachment 5.**

Specifying output performance measures and targets

Output performance measures help assess organisational performance in the delivery of outputs. Performance measures are the building blocks of an accountability system that drives continuous improvement and is the basis for the certification of revenue (refer to *Chapter 5 Implement, measure and monitor*).

Good quality output performance measures:

- help government to make informed decisions about allocating resources;
- allow departments to develop and assess standards of service delivery in line with government expectations;
- allow Parliament and the public to scrutinise and assess government performance and spending of public funds; and
- drive continuous improvement through analysis of historical performance and negotiation of agreed targets from year to year.

Output performance measures should enable meaningful comparison and benchmarking over time, across departments and against other jurisdictions. For example, the interaction between two different measures, number of services provided and hours per service, could indicate a potential trade-off between quantity and quality of the service.

Each output performance measure has an associated one year target that stipulates the government agreed standard of service delivery for that year (as a level of quantity, quality, timeliness and cost).

Where services are unchanged, output performance measures should remain unchanged to allow for year on year comparisons and to benchmark performance. Occasionally, a performance measure may be changed where there is a clear case that the replacement is a better measure of the service. However, targets should be revised regularly to reflect increases or decreases in funding, historical over achievement, or productivity gains resulting from continuous improvement.

Further guidance on developing departmental performance measures can be found in **Attachment 6**.

3.3 Review and changes to objectives, outputs and performance measures

Mandatory requirements REVIEW AND CHANGES TO OBJECTIVES, OUTPUTS, AND PERFORMANCE MEASURES
3.3 Review and changes to objectives, outputs and performance measures 1. The **Accountable Officer** must ensure: (a) an annual review and assessment is conducted for continued relevance and robustness of the department's objectives, indicators, output structures and associated performance measures; and (b) changes to the departmental performance statement are only made as part of the annual budget process or in accordance with *Chapter 4 Budget process*. However, comparability of performance over time should be taken into account when considering changes. 2. The **DTF Accountable Officer** must ensure DTF jointly with departments, annually review departmental objectives, outputs and performance measures for continued relevance and robustness.

4. Budget process

Overview

The budget involves a decision making process to formulate recommendations to Cabinet on resource allocation. The budget process should ensure that:

- all outputs and asset investments are consistent with the achievement of desired government objectives and priorities; and
- the price paid for outputs and funding provided for asset investment initiatives in the budget is consistent with the Government's budget strategy.

The final determination of the output mix and performance targets are specified in performance statements in budget papers, which acts as a delivery contract between the Government and each respective Portfolio Minister/Department. This output performance agreement is used as the basis of revenue certification for a department (refer to *Chapter 5 Implement, measure and monitor*).

This chapter sets out the processes departments must follow regarding negotiation and specification of departmental performance statements in budget papers. This includes:

- output pricing under the departmental funding model (DFM);
- negotiation and agreement of performance; and
- requirements for footnotes accompanying performance statements.

Determination of output cost should be considered part of performance measurement rather than a separate financial process, as output cost is a mandatory performance measure.

In certain circumstances, departments and Portfolio Ministers are able to change their budgeted output mix during the financial year (refer to *Chapter 5 Implement, measure and monitor).*

4.1 Departmental Funding Model and output pricing

Mandatory requirements
DEPARTMENTAL FUNDING MODEL AND OUTPUT PRICING

4.1 Departmental funding model and output pricing

Departmental Funding Model (DFM)

1. In determining the output price under the departmental funding model:
   - (a) departmental revenue for the provision of outputs is determined by the sum of prices paid by government for all the department's outputs;
   - (b) base output price is determined and varied in accordance with output decisions made by government as part of ongoing budgetary processes;
   - (c) base output price is escalated through indexation to maintain alignment with movements in either the rate of inflation or in line with government policy; and
   - (d) revenue can be applied to meet any costs associated with the delivery of its outputs.
2. The **Accountable Officer**, must ensure the identification of individual revenue streams associated with the provision of outputs. These may encompass:
   - (a) application of annual appropriations for provision of outputs, including Section 29[4] receipts;
   - (b) other revenue generated by the department to offset costs of output delivery including Trust Fund receipts, or non-public account receipts; and
   - (c) Special Appropriations for purposes which cover output provision.

Outputs partly funded externally

3. The **Accountable Officer**, in specifying pricing and treating outputs partly funded externally, must ensure the following requirements are met:

   When the department provides the product or service:
   - (a) the output is specified as the total product or service consumed by the public;
   - (b) when an FMA section 29 *Annotated Receipts Agreement or Trust Account Arrangement* is in place, revenue receivable must be shown as departmental revenue;
   - (c) the budgeted net output price (revenue received from government) must be determined by:
     - i. estimated total accrual cost of the output *less*
     - ii. estimated revenue from external users/buyers of the product/service;
   - (d) if actual revenue exceeds the budgeted expenses, the Portfolio Department will retain the surplus; and
   - (e) if actual revenue is less than the revenue budgeted, the Portfolio Department:
     - i. must either fund the deficiency from internal sources; or
     - ii. if the deficiency is caused by a decrease in demand from factors outside the department's control, the department may seek alternative funding sources via the Treasurer.

   When the product or service is provided by an external provider:
   - (f) the output must be specified as the government contribution to the service delivery, in terms of any performance measures negotiated with the provider which form the basis of payment by the government; and
   - (g) the output price must be the price negotiated by government with the external provider, which may be either a total amount or based on quantity delivered.

[4] Commonwealth grants may be included in Section 29 Receipts Retention, or in Trust Fund receipts or administered revenue depending on the framework in place to administer these funds

Guidance

Objectives of departmental funding model

The formulation of the state budget is based on the departmental funding model (DFM), which is intended to drive productivity growth and achieve improved policy outcomes by requiring departments to:

- fully manage all costs within an agreed price for delivering services; and
- be accountable for controlling costs.

The primary features of the model are:

- *A clear focus on service delivery:* Departments are paid the price to deliver agreed outputs to specified performance standards. If these standards are met, the output price will be paid by government;
- *Simplicity in setting estimates:* Price is set by agreed formulas to provide departments certainty about forward revenue levels; and
- *Allocating responsibility for productivity and risk where they are best managed:* Departments are responsible for managing costs within the price paid by government. Departments have flexibility (within normal legal and policy parameters) in how they manage costs/inputs to deliver outputs within total revenue earned.

Variation to price

Departmental funding relates to the price of outputs assuming current output specification and performance measures remain constant across the forward estimates. Policy decisions to vary quantity, quality and timeliness for existing outputs, or to introduce new outputs, remain decisions for the relevant Cabinet Committee. Departmental appropriation revenue will vary in accordance with future policy decisions.

Price may also be adjusted or modified through a review of output price in accordance with *Chapter 6 Funding reviews*. Where departments believe that cost pressure in an existing output may impact the ongoing viability of service delivery, a business case should be made that demonstrates, prima facie, that the cost pressure:

- cannot be sustained within the total departmental price, to the extent that service delivery is adversely affected;
- is a result of factors outside the control of the department; and
- is not a result of service/quality expansion and/or demand growth (these issues will continue to be considered in the context of the Government's policy decision framework).

Operation of indexation factor

Base output prices, across the forward estimates, are indexed to reflect general price movements in the economy, except for a limited number of exclusions. Currently, indexation is applied using the official State Government forecast of the Consumer Price Index (CPI), All Groups, and Melbourne.

Uniform indexation is not applied to all departmental estimates since some components of output delivery are subject to different price indexation as a result of:

- explicit government decisions (e.g. non wage health specifics such as drugs and prosthetics);

- special arrangements such as Commonwealth/State matching arrangements (e.g. young people in nursing homes); or
- existing contracts to deliver outputs negotiated through a tender process (e.g. public transport contracts).

Output prices are indexed to ensure that departments' ability to deliver services is not eroded over time by inflation. The current practice, which has been in place for a number of years, is to apply an indexation factor of 2.5 per cent per annum. This aligns with the mid-point of the Reserve Bank of Australia's 2 to 3 per cent inflation target band and the average rate of inflation (as measured by the All Groups CPI for Melbourne) over the past two decades.

Output delivery contracts

Existing major output delivery contracts are excluded from uniform indexation for the life of the existing contract term where the price for an agreed level of service on a **no policy change basis** is subject to differing indices prescribed within the existing contract. For such contracts, when the estimate of the price needs to be revised during the forward estimates period, DTF and the relevant department agree any upward or downward movement based on the indexation methodology prescribed within the contract. Should the methodology require the use of forecast indices, the forecasts must be agreed with the Treasurer, in a similar manner to the uniform indexation forecasts.

Future contracts to deliver outputs will not be excluded from the uniform indexation arrangements unless there is an explicit government decision to do so.

Specification and pricing of outputs partly funded externally

A number of departments charge users directly for some products or services, with this revenue meeting either part or the whole of the cost of the product or service delivery.

In other cases, an external service provider (this could be a public non-financial corporation or a non-government entity) provides products or services directly to the public and charges the users an amount which covers only part of the cost, with the difference funded by government contribution.

If an output appears to be a clearly-definable item with a readily-identifiable cost, the important issue for management purposes is the total net cost to government of the delivery of that output.

After identification of the total delivery cost, and expected demand and hence revenue received from external users, the department can then consider the net price of the output to government.

The department and government should seek to minimise the total output delivery cost while balancing:

- the charges imposed directly on customers for the product or service (as per Standing Direction 3.8 refer to the Victorian Government's *Pricing principles for regulatory and other government provided goods and services*);
- any aspects of the service which government will fund as a Community Service Obligation (CSO);
- the net output price to government; and
- any National Competition Policy issues.

4.2 Departmental performance statements

Mandatory requirements DEPARTMENTAL PERFORMANCE STATEMENTS

4.2 Departmental performance statements

1. The **Accountable Officer** must ensure:
   - (a) alignment of the departmental performance statement and budget initiatives/submissions with the achievement of government objectives and priorities. The output price and revenue must directly reflect the output performance targets to be delivered;
   - (b) departments seek the contribution of their portfolio entities in developing the departmental performance statement;
   - (c) to receive endorsement by the Responsible Minister(s) for the department's performance statement and submit as part of the budget process;
   - (d) departments submit budget submissions to DTF for negotiation and agreement on the price, quantity, quality and timeliness measures for each output, and determination of revenue to be received as part of the state budget and Appropriation Bill processes; and
   - (e) the minimum requirements is met for the content of departmental performance statements as outline in Section 4.2.3 and Section 4.2.4.
2. The **DTF Accountable Officer** must ensure DTF:
   - (a) jointly with departments, annually review the departmental performance statement for continued relevance and robustness as part of the state budget process; and
   - (b) advises the Minister for Finance[5] on whether to approve the final determination of the outputs to be purchased and the performance measures to be used to assess output delivery as part of the revenue certification process (refer to *Chapter 5 Implement, measure and monitor*).

Minimum requirements for the content of departmental performance statements:

3. Departmental performance statements must include:
   - departmental objectives and objective indicators;
   - outputs and associated quantity, quality, timeliness and cost performance measures and targets (output tables);
   - departmental mission statements and output descriptions;
   - explanatory commentary to outputs (in the form of footnotes refer to Attachment 7 for requirements on performance measure footnotes), which explain the changes in objectives, objective indicators, outputs, performance measures and targets from one budget year to the next;
   - discontinued outputs and performance measures; and
   - output cost summary table that lists the total cost of outputs.
4. Performance information included in the output tables is reported in four categories:
   - the coming year's budget target;
   - the previous year's budget target;
   - the expected outcome for the previous budget year (estimated because the budget is published before the end of the financial year, so the actual outcome is unknown); and
   - the actual outcome from the most recently completed financial year.

[5] Under Section 40(1)(a) *Financial Management Act 1994*, the Treasurer has responsibility for the final determination of the outputs to be purchased, and the performance measures to be used to assess whether the output has been delivered. This responsibility can be (and has been) delegated to other Ministers, such as the Minister for Finance, by the relevant Cabinet committee.

Guidance

The primary authority for the publication of outputs and associated performance measures in departmental performance statements in the annual budget papers is the *Financial Management Act 1994*, Section 40 of the Act states:

(1) The Minister must prepare, in association with the annual Appropriation Bills, a statement of information under departmental headings setting out:

(a) a description of the **goods and services to be produced or provided by each department** during the period to which the statement relates, together with comparative information for the preceding financial year.

The outputs and their associated quantity, quality, timeliness and cost measures represent the agreement on the goods and services the Government intends to deliver in the coming financial year and revenue certified based on this agreement.

Therefore, any negotiations on efficiency and effectiveness of outputs and continuous improvement should occur during the resource allocation phase and the agreed position included in the goods and services agreement published in the budget papers. The agreement should include measures and targets that are therefore challenging (to the extent that they represent value for money) but achievable. Targets should not be aspirational goals.

Under Section 40(1)(a) *Financial Management Act 1994* the Treasurer has responsibility for approving departmental output structures and changes to departmental outputs. This responsibility can be (and has been) delegated to other Ministers, such as the Minister for Finance, by the relevant Cabinet Committee.

Discontinuing or substantially changing output performance measures

If departments find that a performance measure does not meet the good practice criteria outlined in this guide, it can be changed, discontinued or replaced with a better measure.

Performance measures may change substantially due to:

- machinery of Government changes;
- a shift in focus of the service;
- development of improved measures; or
- the establishment of new data sets which can collect different information.

Performance measures can be discontinued because:

- it is no longer relevant due to a change in government policy or priorities and/or departmental objectives;
- projects or programs have been completed, substantially changed, or discontinued;
- milestones have been met;
- funding is not provided in the current budget for the continuation of the initiative; or
- improved measures have been identified for replacement.

A current measure should not be discontinued where it is the sole indicator of an attribute (e.g. quality) of the output or where there has been under performance.

Performance should continue to be measured and reported for lapsing programs funded internally through reprioritisation.

Performance measures can be replaced by a more appropriate measure where the new measure provides significantly more meaningful information to Parliament and the public.

After the budget papers are published, the Public Accounts and Estimates Committee (PAEC) may be invited by government to review performance measures that are proposed to be substantially changed or proposed to be discontinued, to ensure these measures are receiving a high level of scrutiny through their publication in budget papers. Departments are informed of the outcomes of PAEC's reviews, and updates to Budget Paper No. 3 Appendix A are reflected by DTF on the Government's budget website www.dtf.vic.gov.au/State-Budget.

Departments must provide the necessary footnotes and associated targets and estimated outcomes for measures that are proposed to be discontinued, as these measures may be reinstated at PAEC's request. If a measure listed in Budget Paper No. 3 Appendix A is continued, a current year target is identified to ensure continuity of reporting and transparency in the publication of performance information.

Estimating expected output performance measure outcomes

When estimating expected outcomes for reporting purposes, departments should:

- track performance over time (on a quarterly or monthly basis) to support estimation;
- use year-to-date (YTD) data as a starting point for estimation;
- consider annual trends in previous years and relevant external factors;
- check with service delivery areas as to whether there are any risks to achieving the target and ascertain a likely expected outcome; and
- request explanations for any expected variances and validate.

Performance measure footnotes

Footnotes assist a reader to understand changes in performance measures, or changes in how measures are reported, to ensure performance can be measured consistently over time.

Further requirements and wording for standard footnotes is provided in **Attachment 7**.

5. Implement, measure and monitor

Overview

This stage of the performance management cycle involves the implementation of plans using allocated resources and monitoring progress against these plans. This includes tracking and reviewing finances, service delivery and capital projects to ensure they are meeting their targets, and objectives are being or are likely to be met.

Where required, departments and Portfolio Ministers are able to change their budgeted output mix during the financial year subject to certain requirements and conditions.

Performance management requires measuring and monitoring actual results or performance achieved against plans. Evidence from performance measurement enables government and management to focus on improving the results and impact by supporting decision-making and managing risk. Performance data can be used to:

- inform strategic planning and ongoing development and implementation of policy, strategies and plans;
- inform capability and service development;
- report consistently and concisely on achievements; and
- hold managers accountable for performance.

Performance monitoring should:

- be conducted for all levels and types of plans (e.g. corporate, operational and financial plans);
- identify performance trends, gaps and risks;
- enable the implementation of mitigation strategies and corrective actions, if required;
- cover both the financials and non-financials and the interrelationships between them to enable integrated performance information to be reported; and
- span across multiple years.

Monitoring of performance occurs formally through half yearly and annual reports on output performance, financial reports, and quarterly reports on the performance of the government's capital investment program.

5.1 Changes to the budgeted output mix

Mandatory requirements CHANGES TO THE BUDGETED OUTPUT MIX

5.1 Changes to budgeted output mix

1. Departments must ensure the relevant Portfolio Minister approves any material change in the budgeted output mix in terms of quantity, quality, timeliness and cost.
2. Departments must advise DTF of the proposed changes as soon as possible, once the relevant Portfolio Minister has approved changes to the budgeted output mix in Budget Paper 3 (BP3).
3. Ministers may make changes to the budgeted output mix as contained in BP3 of up to 5 per cent of the revenue for any individual output, subject to the following:
   (a) changes must not cause revenue earned for output provision to exceed the total appropriation available for that purpose in Schedule 1 of the Appropriation Act, adjusted for any approved supplementary funding provided through the Advance to the Treasurer or the carryover of unapplied appropriation from the previous year;
   (b) changes must be compatible with meeting the Government's desired outcomes, and can be linked to key objectives as defined in the department's corporate and business plans; and
   (c) changes must not result in increased or ongoing future demand pressures that will exceed the department's forward estimates, unless previously agreed to by the Treasurer/the relevant Cabinet Committee.
4. Changes in excess of 5 per cent of individual output revenue or the establishment of new outputs, require the approval of the Minister for Finance prior to the changes being effected by the department.
5. Departments must advise DTF in its next bi-annual output provision report and formally state that the change complies with the three conditions as outlined in *Section 5.1.3*.
6. DTF must advise the Treasurer and the Minister for Finance whether the change complies with all of these conditions.
7. If the proposed change involves the delivery of a new output, DTF must, after negotiation with the department, recommend to the Minister for Finance the price, performance measures and targets for the new output.

Guidance

Ministers and departments may decide to vary their output mix **during a budget year** for a number of reasons, including responding to unanticipated events (e.g. unforeseen demand changes), technological innovations or adjusting required output quality targets.

Variations might require increasing production of one output and reducing that of another, or introducing a new output or outputs which were not included in the department's budget.

The Minister for Finance has devolved to departments and DTF changes in budgeted output mix in BP3 of up to 5 per cent of the revenue for any individual output, subject to conditions set out in the mandatory requirements.

Changes to the budgeted output mix published in BP3 above 5 per cent of individual output revenue, especially the establishment of new outputs, need to be first approved by the relevant portfolio Minister and the Minister for Finance before the changes are made by the department. If the Minister for Finance is not satisfied that the department cannot achieve the three conditions outlined in the mandatory requirements, the Minister may recommend that the portfolio Minister instruct the department not to make the proposed change.

5.2 Performance reporting

Mandatory requirements PERFORMANCE REPORTING

5.2 Performance reporting for monitoring

Output performance reporting

1. The **Accountable Officer** must ensure output performance reporting[6] is done bi-annually (i.e. for the six months ended December and the 12 months ended June) and must include:
   - (a) output performance against targets;
   - (b) key strategic performance issues – significant emerging issues/risks and those issues currently being addressed by the department that are likely to impact on key Government priorities. This is not limited to performance against output performance measures and must include, where necessary, commentary on issues which are of strategic importance or material to the performance of the portfolio(s);
   - (c) major budget commitments and follow up issues – progress on specific budget commitments and initiatives and reporting on other issues the relevant Cabinet Committee has requested;
   - (d) progress against efficiency targets – progress made in the achievement of efficiency targets endorsed by government;
   - (e) information regarding carryovers – information is required on the usage of departmental carryovers from the previous financial year, as well as expected carryover in December and June. This must include identification of the outputs that are affected by carryover;
   - (f) hypothecated trust funds – hypothecated trust funds with a balance and/or annual revenue streams of $25 million or more are required to be reported, unless alternative reporting arrangements are already in place;
   - (g) asset investment – overall progress and outlook on the annual investment program; and
   - (h) Machinery of Government changes – information on the impact and implementation of any Machinery of Government changes that have occurred during the financial year.

Asset investment reporting

2. The **Accountable Officer** must ensure departmental quarterly phasings for asset investment projects are agreed between DTF and departments within the first quarter of each financial year or other date specified in a DTF Information Request for the budget year. The information to be provided is as follows:
   - (a) the name of the asset project;
   - (b) any relevant information such as the type of work;
   - (c) the source of funding; and
   - (d) quarterly expenditure phasings.
3. As part of the quarterly asset investment reporting process, departments will provide data on:
   - (a) issues relating to the overall progress and outlook on specific major asset projects including progress on the annual investment program, both in terms of project delivery and financial expenditure;
   - (b) the progress and delivery of all investment projects being undertaken by Government as listed in Budget Paper No. 4: State Capital Program; and
   - (c) the source of funds utilised to fund asset investment, which may comprise either or both of the following:
     - depreciation equivalent funding; and/or
     - ATNAB (which may encompass some Section 29 Annotated Receipt Agreements).

[6] Financial Reporting Direction FRD 8C *Consistency of Budget and Departmental Reporting*

Guidance

Non-financial performance monitoring should cover the delivery of services and activities at the operational level, and the progress towards achieving departmental objectives at the strategic level.

Financial and budget monitoring should cover the current year and the medium term. This will enable monitoring of the budget for the current year as well as assessing financial sustainability over the medium term and the impact on service delivery and results.

Departments should consider informing their governing body responsible for monitoring departmental performance (e.g. the Senior Executive Group) regularly on the progress during the financial year.

Departments should consider informing the responsible minister of significant risks when they become aware of:

- significant variations to strategies compared to plan;
- significant variations to targets compared to plan; and
- any financial or non-financial (including reputational) developments which may materially impact the department or the Government.

5.3 Revenue certification

Mandatory requirements
REVENUE CERTIFICATION

5.3 Revenue certification

1. The **Accountable Officer** must ensure submission of two invoices reflecting actuals; one for the six months ended December and, one for the 12 months ended June to DTF to claim revenue for:
   (a) the provision of outputs delivered against agreed performance measures;
   (b) Additions to the Net Asset Base (ATNAB) on asset investment projects delivered against agreed performance targets; and
   (c) activity in relation to Payments on Behalf of the State (POBOS).
2. The **Accountable Officer** must ensure the appropriation revenue certification report includes:
   (a) an invoice for the period for revenue claimed (i.e. for the six months ended December or the 12 months ended June) against the appropriation for the provision of outputs signed by the departmental Secretary:
   (b) a statement by output of revenue claimed against target;
   (c) a statement of actual output performance for all agreed quantity, quality, timeliness and cost measures compared to target for each output;
   (d) departmental comments on any major variations between actual output performance and target, explanation on specific output issues, e.g. measurement, likely impact of quarter performance on full year outturn;
   (e) changes to annual output mix; and
   (f) for the period revenue claimed (i.e. for the six months ended December or the 12 months ended June) a statement of net additions to the asset base, payments made on behalf of the State and Section 29 revenue.

Assessment – outputs

3. On receipt of each invoice, DTF must assess actual departmental output performance against agreed performance measures based on output delivery.
   (a) However, a view can be formed based upon lower level indicators about whether revenue for an output should be certified or rejected.
   (b) In the event that assessment at the output level may be deemed inappropriate, then DTF and the department may agree on alternative, suitable and appropriate performance information that could also be used as the basis for revenue certification.
4. Revenue claimed by departments is certified if outputs meet or exceed their agreed quantity, quality, timeliness and other agreed performance measures at year end. Revenue paid into trust accounts may be certified ahead of service delivery.
5. Where actual performance data for the six months to December is not available due to time lags the following applies:
   (a) estimated performance must be based on actual performance for three months of the year and estimated performance for the remaining three months or some other measure agreed between DTF and departments; and
6. If actual performance data becomes available subsequently, and materially varies from that previously estimated, any resulting revenue adjustment must be taken onto the department's books at the end of financial year.
7. Where actual performance data is not available at year end due to time lags the following applies:
   (a) estimated performance must be based on actual performance for nine months of the year and estimated performance for the last quarter or some other measure agreed between DTF and departments; and

Mandatory requirements
REVENUE CERTIFICATION

(b) if actual performance data becomes available after the financial statements have been audited/published and materially varies from that previously estimated, any resulting revenue adjustment must be taken onto the department's books in the following financial year.

Assessment – addition to net asset base

8. On receipt of each invoice, DTF must assess asset investment issues in regard to the ATNAB component of funding utilised for asset investment/replacement projects.

Assessment – payments on behalf of state

9. On receipt of each invoice, DTF must assess issues concerning POBOS component of funding.

Certification and application of appropriation

10. For both invoices, DTF must provide advice to the Minister for Finance regarding the department's invoice and whether any adjustments should be made, more specifically:
    (a) for the six months ended December, DTF must advise the Minister for Finance if there are any issues including under performance which may have an impact on revenue certification at 30 June; and
    (b) for the 12 months ended June, DTF must advise whether the invoice should be accepted as submitted.
11. On the basis of this advice the Minister for Finance must advise the Treasurer to formally apply (or note, in December) the amount of appropriation revenue to be recognised by the department.
12. Departments must recognise and report appropriation revenue in accordance with accepted accounting standards and, when a certification is provided by the Treasurer, following certification.

Carryover

13. Where a department has delivered less than its budgeted quantity of outputs, but the outputs actually delivered have been provided within the budgeted unit cost, the department may apply to the Treasurer for approval for the remainder of the appropriation to be carried over to a subsequent year (*refer to Budget Operations Framework section 1.3, Section 32 carryover*).

Guidance

Output performance and revenue certification

The Victorian financial management framework provides for the certification of appropriation revenue commensurate with the delivery of government approved outputs specified in the departmental performance statements in *Budget Paper No. 3 – Service Delivery*.

The output performance reports (half-year in December and year-end in June) provides the basis of information compiled by DTF for:

- reporting to the relevant Cabinet Committee on the output performance of departments and key service delivery issues at a whole of government level. This includes implementation of key business strategies and initiatives, financial and service delivery performance, and the identification of budget pressures and emerging risks to future performance or the budget outlook; and
- recommendations to the Minister for Finance and the Treasurer on the amount of revenue which should be certified for each department in the period based on their reported output performance against targets.

The end of financial year revenue certification process determines departmental financial results and extent of application of annual appropriations for the year, which will be audited by the Auditor-General.

For the six months ended December, revenue is provided for noting which is an interim step where a department is unable to verify that delivery has occurred. This means that a department could post the full value of the revenue claim to its revenue account in respect of this period, but the figure is subject to subsequent verification (and potential alteration).

For the end of financial year, revenue must either be certified and applied, or rejected. At year end, revenue claimed by departments may be rejected when outputs do not meet their performance measures and service delivery has not occurred. This means that revenue certified will be less than the invoice received from departments.

Actual versus estimated data

In some circumstances, revenue certification for the year will not be based on actual performance data due to time lags in data availability.

This estimated performance should refer to actual performance over the latest 12-month period (e.g. April to March) for which full data is available, together with the estimated impact in the final months of the year of any reasonably certain factors which will have a material effect on performance.

This means that end of financial year (i.e. annual) revenue could be certified, and audited, on the basis of performance data estimated in good faith which subsequently proves to be inaccurate. Assuming actual data becomes available only after the financial statements have been audited and published, then any revenue adjustment will be taken onto the department’s books in the following financial year.

Trust Accounts

Revenue paid into trust accounts may be certified ahead of service delivery, provided that the revenue transfer is consistent with the requirements of the Appropriation Act. Revenue paid into trust accounts, and the application of funds from trust accounts, are to be detailed in departments’ annual reports. In line with the appropriate use of trust accounts, such revenue is not necessarily matched against expenditure in any particular year and may result in carryover balances.

6. Evaluation

Overview

Evaluation is a key tool for ensuring efficient and effective delivery of government services through evidence based policy and decision making.

Evaluation objectively reviews the success of the policy, program or project in achieving the stated goals, including their impact on achieving outcomes, and recommend appropriate actions, including whether they remain the best policy response. To a large extent, the evaluation will use the success measures that are established during planning.

A culture of evaluation and continuous improvement will assist the public sector in designing future programs. The DTF Guide to Evaluation and the Investment Management Standard issued by DTF provide guidance on evaluation.

The government introduced the requirement for lapsing program evaluation in 2011. An evaluation is required for all lapsing programs seeking further funding.

In addition to evaluating specific lapsing programs, departments should also regularly review the base funding of outputs to ensure that public spending on outputs remains efficient and effective. These reviews should systematically consider the continued relevance of the outputs delivered to achieve outcomes for Victorians, and the appropriateness of the price paid for these services. Consideration of alternative methods of service delivery should be considered as part of these reviews and provide information for long and medium term planning.

6.1 Lapsing programs

Mandatory requirements LAPSING PROGRAMS
6.1 Lapsing program

Lapsing programs seeking further funding

1. The Accountable Officer must ensure:
   (a) in conjunction with the relevant Minister, an evaluation is done for all lapsing programs (output initiatives including grants) seeking further funding, in the year the funding is due to lapse; and
   (b) actions are taken in relation to the findings to evaluation reports, where appropriate.
2. The **Accountable Officer** must ensure evaluation reports clearly answer questions set out in Attachment 9 [7] which also articulate the minimum standards that must be met. The minimum standards are based on a dollar threshold to determine the appropriate level of detail to support departmental responses to the questions:
   (a) less than $5 million total program funding [8]; or
   (b) equal or greater than $5 million total program funding [8].
3. Notwithstanding *Section 6.1.2* above:
   (a) in the instance where the total program funding is less than $5 million and the relevant Cabinet Committee or the Treasurer have identified a lapsing program as warranting extra rigour in its evaluation, requirements for a program exceeding $5 million will apply; and
   (b) in the instance where a lapsing program was originally funded in the previous budget (i.e. funded only for one year), requirements for a program less than a total of $5 million will apply.
4. For programs over $5 million total funding:
   (a) the scope and terms of reference for evaluations must be endorsed by DTF and the Department of Premier and Cabinet (DPC) prior to commencing the evaluation (whether conducted within, or external, to the department); and
   (b) DTF and DPC must endorse the scope and terms of reference within 10 working days of receiving this.
5. The program must be evaluated by a capable and competent person who is independent of the direct program deliverer.
6. Where the evaluation is being conducted within the department, DTF may conduct quality assurance reviews on the practices of the department's internal evaluation units.
7. The individual initiative submission request supporting the evaluation report for further funding must articulate:
   (a) the impact of ceasing the program;
   (b) strategies to minimise negative impacts where appropriate;
   (c) alternatives that could provide a fall-back position; and
   (d) level of efficiencies that could be realised if ongoing funding was provided.

[7] Evaluation report requirements may be shared with consultants external to government engaged to conduct the evaluation. This will ensure evaluation content and structure is consistent with the requirements. Consultants engaged to conduct evaluations are bound by Cabinet confidentiality.

[8] Total program funding relates to funding provided over the four years (if applicable) prior to the date at which the program is scheduled to lapse.

Mandatory requirements LAPSING PROGRAMS
Lapsing programs not seeking further funding 8. For all programs lapsing in the current financial year that are not seeking further funding, departments must provide: (a) a list of programs lapsing in the current financial year that are not seeking further funding; (b) why the program was established; (c) a brief outline of who and how many people used the program/service; and (d) an explanation of why further funding is not being sought.

Guidance

Objectives and benefits

The lapsing program evaluation requirements aim to ensure evaluations:

- provide necessary evidence-based information to inform the Government's current and future policy decision making; and
- meet minimum requirements and expectations of the Victorian Government.

The requirements will benefit departments by providing an avenue to:

- articulate the nature and costs and benefits of the programs they are responsible for delivering;
- communicate performance and impact of these programs; and
- seek support for necessary actions arising from evaluations.

Conducting an evaluation

Evaluation approach

Evaluations should be rigorous but cost-effective. The potential costs and benefits of evaluation approaches and designs, including the decision to use an internal or external evaluator, should be considered, with cost, time, resources and skill availability all key concerns. In addition, the evaluation approach should reflect the size of the program, along with its scope, complexity, importance and the risks associated with the program.

The program evaluation should be conducted in accordance with the principles outlined in the DTF Guide to Evaluation, the National Statement on Ethical Conduct in Human Research and any legal obligations.

In particular, evaluation criteria and data requirements should be established during the initial stages of developing a policy or program proposal (i.e. evaluation strategy as part of business case submissions) to ensure adequate information is available to evaluate performance and success.

Independence of evaluator

The evaluator need not be external to the department or government, but simply external to direct involvement in the delivery of the program. The evaluation should be project managed independently to program delivery.

Where the evaluation is being conducted by a third party, the contractual arrangements should allow scope for DTF, or its nominee, to engage in discussions with, and receive briefings from, the third party on methodology, assumptions and the final report.

Evaluation reports

Notwithstanding the requirements set out in other sections of this document, at a minimum, evaluation reports should:

- be readable, understandable, and avoid jargon;
- be within the page limit specified in Attachment 9;
- provide a clear and accurate description of the purpose, context, conduct (including methodology) and results of the evaluation;
- address key evaluation questions clearly and succinctly, including providing findings and analysis;
- detail who reviewed the program and their relationship to the department and the program;
- clearly outline data and data collection methodology used in the evaluation;
- provide results of the evaluation which are based on evidence directly resulting from the program (i.e. results are not to be based on other data outlined in pilots or similar programs within Victoria or from other jurisdictions);
- provide conclusions that reflect those determined by or agreed with the evaluator; and
- provide recommendations which are clear, practical, realistic, rigorous and able to be implemented, including a focus on how the program could run more efficiently and effectively in the future.

The structure of evaluation reports should be provided in accordance with the requirements outlined in the 'Evaluation Section' of Attachment 9.

Departments should note that Attachment 9 is not intended to be used by departments as a template for completion. Rather, it is expected departments address these issues in their evaluation report or accompanying submission.

Requests for further funding of lapsing programs which do not comply with these requirements may not be supported by DTF and DPC for Cabinet Committee consideration.

6.2 Funding reviews

Mandatory requirements FUNDING REVIEWS
6.2 Funding reviews
1. Mandatory requirements for funding reviews are currently under examination.

7. Reporting performance

Overview

The Government monitors and reports on its performance in a variety of ways to ensure the expenditure of public funds is efficient, effective, and is deriving value for money outcomes for Victoria.

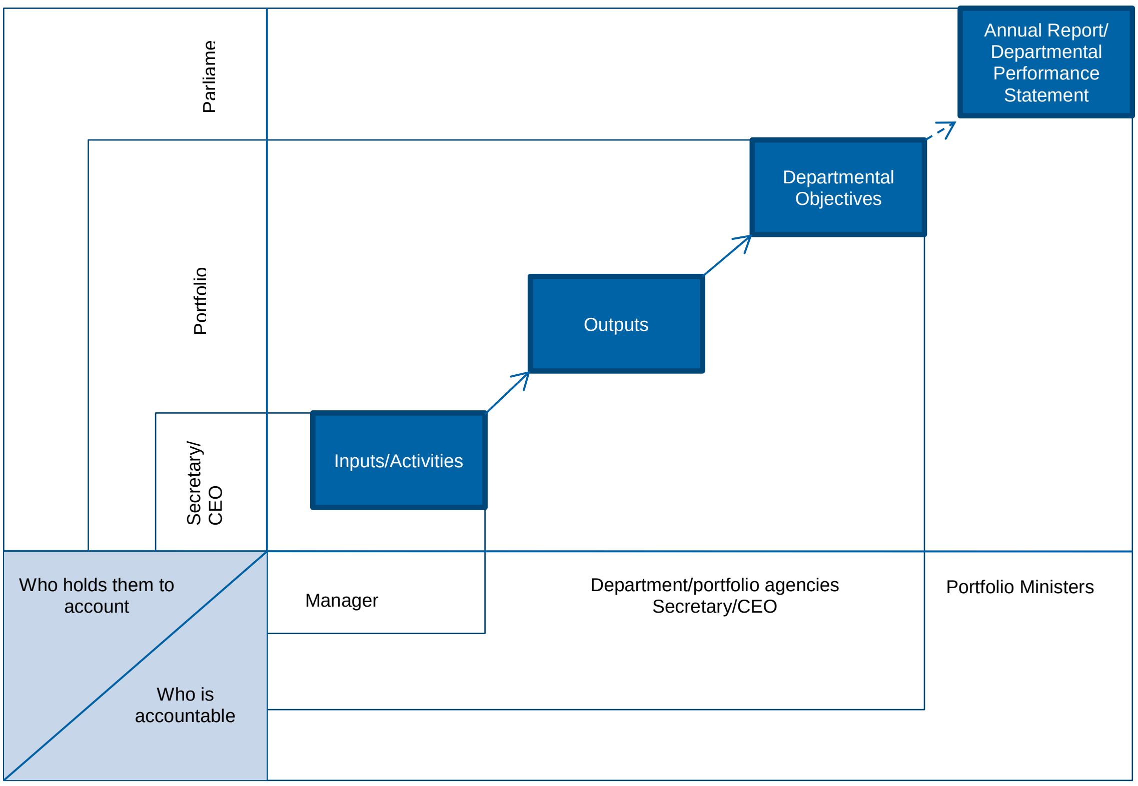
The performance measurement reporting arrangements discussed below are not intended to replace program evaluation activities undertaken across government, but to complement these activities and provide additional information to improve the results of evaluation.

The requirements focus on performance reporting to parties external to the department for accountability and monitoring purposes. This includes output performance reporting for monitoring and revenue certification purposes, and accountability reporting to Parliament and the public in Budget Papers and departmental annual reports.

Departments should establish their own internal performance reporting arrangements to assess goods and services delivery performance against plan and budget, and progress towards achieving the department's objectives.

The diagram below summarises the different levels of performance reporting, reflecting accountability arrangements.

Figure 5: Performance reporting accountabilities



7.1 Reporting

Mandatory requirements REPORTING PERFORMANCE	
7.1	**Objective and output performance reporting for accountability and transparency**
1.	The **Accountable Officer** must ensure reporting of portfolio performance in departmental annual reports is in accordance with requirements specified in *Financial Reporting Direction FRD 8C Consistency of Budget and Departmental Reporting* and *Model Report for Victorian Government Departments* (Standing Direction 5.3.1(b)).

Guidance

Departmental objective and output performance reporting in annual reports

The department's annual report of operations enables departments to report on its achievements. This includes reporting on the extent to which outputs have contributed to the achievement of departmental objectives and on output performance.

Departmental objective progress reporting

The effectiveness of outputs in contributing to achieving government priorities is measured through departmental objective indicators, which establish an evidence base for the link between outputs and longer-term impact.

The PMF provides that the departmental performance statement must contain objective indicators. This assists Government to determine the appropriate output mix (and departments in providing advice to government) based on intended impacts and the results from past output delivery.

The contribution of outputs towards the achievement of objectives may be best identified over a number of years. In some cases, year-on-year changes may be difficult to identify and demonstration of results will be most effective through trends across a number of years.

There should be a clear narrative thread linking output delivery performance and their contribution towards achieving departmental objectives through objective indicators. The Model Report specifies minimum disclosure requirements – departments can provide additional information on performance as necessary.

Output reporting

Successful output delivery by departments is assessed against government specified standards of quantity, quality, timeliness and cost, as set out in the departmental performance statement. Performance against these measures is also reported in the Budget Papers and in a department's annual report of operations.

Federal Financial Relations

The performance information contained within the PMF recognises and aligns where possible with existing reporting arrangements, such as the *Intergovernmental Agreement on Federal Financial Relations* (IGA) in order to ensure government has meaningful and robust performance information for decision-making.

The IGA provides increased flexibility for state governments to deliver key services and increased accountability for the achievement of results. The results achieved by the Victorian public sector across six key service delivery areas funded through the IGA are assessed and reported by the Council of Australian Government's Reform Council each year.

While the PMF has a broader performance reporting coverage than the IGA, it is intended that the two systems align where possible.

Attachments

Additional material has been provided as attachments to the Performance Management Framework.

Attachments include:

Attachment 1: Definitions

Attachment 2: Overview of medium-term planning process

Attachment 3: Further guidance for developing objectives

Attachment 4: Further guidance for developing objective indicators

Attachment 5: Further guidance for developing outputs

Attachment 6: Further guidance for developing performance measures

Attachment 7: Performance measure footnote requirements

Attachment 8: Methodology for output costing

Attachment 9: Lapsing program requirements

Attachment 1: Definitions

Accountable Officer	'Accountable Officer' means the same as defined in the FMA section 42. For a department, this is the Secretary.
Activities	The processes or actions using a range of inputs to produce the desired outputs and ultimately outcomes or impact.
Additions to the Net Asset Base (ATNAB)	ATNAB is an Appropriation for investment in asset creation.
Annual state budget	The annual Budget is the culmination of the planning and resource allocation decision making processes. The Budget sets out what the Government intends to achieve over the forthcoming financial year and how resource allocation decisions will deliver on achieving outcomes.
Base output price	The base output price is the net appropriation amount at the beginning of a financial year, prior to policy or administrative adjustments.
Baseline	The baseline is the current level of performance that the department aims to improve.
Cost	Cost relates to the inputs that go into producing an output, whereas: • **Full cost** is the total cost of all resources expensed in the production of an output. The total of direct and indirect costs. • **Direct costs** are costs which are directly traceable to the production of a specific output, e.g. amount of ink and paper used to produce a brochure. • **Indirect costs** are costs which are not directly traceable to the production of a specific output, e.g. overhead costs of information technology, utilities and building costs.
Cost drivers	Cost drivers are those activities, events or factors that trigger, or have a strong correlation to, the cost being incurred.
Departmental objectives	Departmental objectives are results-based and reflect the extent of the department's service delivery ambitions over the forward estimates period. They are not vision or mission statements. They are quantifiable stepping stones that help take a department towards the desired outcomes articulated in its vision and mission statements. For some functions, the objective could be internal to government where the goods and services are provided to other departments/agencies.
Departmental objective indicator	A departmental objective indicator is a piece of data that demonstrates progress towards the achievement of a department's objectives. Indicators provide evidence to support measurement and management of performance. They describe the quantifiable extent of the effect on recipients of services provided.[9]
Departmental performance statement	A departmental performance statement describes the objectives and associated performance indicators a department seeks to achieve over the medium term, and the goods and services (outputs), including associated performance measures, being funded to achieve these objectives. It describes the government's investment in services and the agreed standards that will ultimately contribute to achieving its objectives and priorities. These statements form part of the budget papers.
Depreciation equivalent	Depreciation equivalent is the quantum of funds equal to actual depreciation expense which is provided to a department for asset investment.
Directions	A Direction is an instruction from a minister in accordance with legislation.

[9] For outputs relating to objectives that solely provide policy advice to government, the ability to quantify and provide data series may not be appropriate. However, departments should consider what qualitative information or supporting evidence is needed to report progress towards achieving the objective.

DTF Accountable Officer	The DTF Secretary in their whole-of-government advice role.
Economy	Timely use of inputs at an agreed quality and quantity while ensuring inputs are kept at lowest cost.
Efficiency	Maximising output for a given set of inputs (note: subject to government approval of adjustment to output quality or quantity) or minimising input for an agreed quantity and quality of output.
General government sector	Comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those that are mainly non-market in nature, those which are largely for collective consumption by the community, and those which involve the transfer or redistribution of income.
Inputs	The resources that contribute to the production and delivery of an output. Inputs include labour, physical resources, and information and communications technology systems.
Lapsing program	A program where funding is provided for a specified period only and for which funding is scheduled to conclude by the end of the current financial year.
Lapsing program evaluations	Lapsing program evaluations are an objective and systematic way of reporting on the contribution a lapsing program has made to the achievement of stated goals, outputs and desired outcomes. Evaluations seek evidence of the actual performance of a policy or program, during or after its implementation. Total funding for the purposes of applying the Evaluation Policy and Standards is regarded as being the previous four years total funding applicable to the program.
Output	Outputs are the final products, or goods and services produced or delivered by, or on behalf of, a department or public body to external customers/recipients. Outputs include products and services delivered to the community (e.g. education, health services), or products and services provided to other departments (e.g. services provided by the Victorian Public Sector Commission to support the public sector). A description of the goods and services for each departments forms part of the Departmental performance statement in the budget papers to support the annual appropriation Bills as required under section 40 of the *Financial Management Act 1994*.
Output performance measures	Output performance measures specify a department's expected service delivery performance. They are used to demonstrate the efficiency and effectiveness of output delivery (quantity, quality and timeliness) and the achievement of value for money (cost). As such they must be selected on the basis of their capacity to measure the extent and standard of output delivery.
Payments on behalf of the Sate (POBOS)	POBOS is an appropriation which provides for payments to be made on behalf of the State. The Department making the payment has no direct control with respect to the quantity of outputs delivered (refer Budget Operations Framework section 1.5 for further information).
Performance standards	Performance standards express the minimum acceptable level of performance, or the level of performance that is generally expected. These should be informed by legislative requirements, departmental policies and service-level agreements. They can also be benchmarked against performance levels in other departments, jurisdictions or according to accepted best practices.
Performance targets	Performance targets express a specific level of performance the department is aiming to achieve within a given time period.
Portfolio Departments (Departments)	Victorian Government bodies as defined in the *Public Administration Act 2004* (or as defined by 'department' (part (a) of the *Financial Management Act 1994*).
Price	Price is the amount agreed between a purchaser and a supplier for the provision of an output with specified measurable attributes.

Public body	Refers to public body as defined in the s3 *Financial Management Act*.
Section 29 Annotated Receipts	Refers to Section 29 of the Financial Management Act 1994 which provides the legislative authority , in conjunction with the Appropriation Act, for particular departmental appropriation items to be increased by an amount equal to specified departmental receipts under the terms and conditions incorporated in an annual agreement signed by the Treasurer and the relevant departmental Minister. Section 29 Annotated Receipts may form part of 'Additions to the Net Asset Base' when being used to fund asset investment.
Unit cost	Unit cost is the full cost divided by the number of output units produced.

Attachment 2: Overview of medium-term planning process

The medium-term planning process revolves around four key stages which are outlined in detail below.

1. Setting a clear direction establishing vision, mission, objectives and indicators

This process of planning entails developing the department's vision, mission, goals and objectives. The mission statement clarifies the department's purpose in the context of the Government's objectives. **It is important to note that this stage of planning occurs before the state budget as the departmental objectives are endorsed during the budget process.** The finalised plan reflects objectives consistent with the budget papers.

The departmental objectives are measured by supporting indicators. With these measurable indicators, departments can monitor progress and make necessary adjustments each year. A further task is to consider outputs or deliverables needed to achieve the department's objectives. The associated output performance measures objectively measure the degree of success of output delivery. *Chapter 3 Developing objectives, outputs and performance measures* provides further information on defining departmental objectives and related performance information.

Throughout this process of setting and refining the strategic direction for the department, departments may engage with portfolio Minister/s and key stakeholders as required.

2. Assessing the operating environment: situation analysis

A range of external and internal factors can affect the achievement of departmental objectives and outputs. These should be considered during medium-term planning, with relevant risk mitigation strategies developed to ensure desired priorities can be achieved. Planning takes into account the impact of cross portfolio issues. However, the finalised plan is specific to the relevant portfolio. Departments can use horizon scanning to assess opportunities and identify limitations and capabilities to deliver the outputs and achieve departmental objectives.

External analysis includes:

- forecasts of economic conditions;
- sector-specific inflationary pressures;
- longer-term changes to the determinants for demand;
- inconsistent/variable demand for services provided;
- demographic and population changes;
- anticipated technological developments;
- actions by other governments; and
- the regulatory environment.

Internal analysis includes:

- the department's culture and structure;
- capacity and capability to deliver;
- resources, including the available technology and condition of assets; and
- physical location of output delivery providers.

With the external and internal analysis, departments can consider strengths, weakness, opportunities and threats (SWOT).

3. Strategy formulation

After analysing the department and the environment in which it operates, strategies and implementation plans can be developed to meet output delivery and departmental objectives, taking into consideration government policies and internal activities. Formulating strategies and implementation plans should involve the whole business (including portfolio agencies) to ensure the emerging drivers, risks, challenges and opportunities are identified and addressed.

Some areas for consideration include:

- output restructures e.g. output-mix;
- demand and supply factors;
- use of technology and innovation;
- minimising operating costs and achieving operational efficiency;
- workforce planning to improve capability;
- planning to manage and achieve optimal value from the asset base;
- engaging markets in maximising value from procurement and external service providers; and
- addressing specific government policies and targets.

Resource planning is also an integral part of medium-term planning process through the inclusion of specific targets for planning purposes.

4. Feedback, control and reporting

Objectives and output delivery strategies and actions should be continuously assessed by setting standards, monitoring performance and acting to manage any variances. Modifications should be made from time to time to address significant change not foreseen, including the use of innovation, market mechanisms and technology.

Attachment 3: Further guidance for developing objectives

Clear and concise

Objectives should focus on a single achievement and not include too many target groups or areas. Objectives that are too broad or attempt to include too many components may be confusing and difficult to measure. Use of the word 'and' should be minimised as it may encourage including lists of sub-objectives. Objectives should be informative to a wide range of users.

Focus on the result or impact the Government is seeking to achieve

Objectives should be consistent with the Government's priorities, and any statement of outcomes by a service area, departments or the government as a whole.

Objectives should clearly identify what is to be achieved (result), rather than strategies, discrete services or products, activities or processes. Results are not things a department can do but are *changes* expected to be observed in the community, environment or economy.

Objectives should be expressed as the impact on the community that a group of outputs can reasonably achieve over the medium to long term. This will minimise the impact of external influences (factors outside the department's control).

Examples

- ☑ Reduced impact of major bushfires and other extreme events on people, infrastructure and the environment
- ☒ Improving the efficiency of court processes [implies a public good and appropriate objective for department but does not note the final impact on the community]

Strategic focus

An objective should have a strategic focus and be aligned with the department's vision and mission. It should not be pitched at too high a level. If every objective can be linked to every output then it is likely that objectives are too high level. Each objective is likely to have a number of supporting outputs (refer Figure 3: *Conceptual model of the PMF*).

Focus on the standard of expected service delivery

An objective should reflect the desired standard of service quality the department is expecting to deliver, and this should be quantifiable. Words describing delivery standards such as 'high quality', 'excellent' or 'good' should be defined or replaced by quantifiable ambitions.

Identify the target group/s that will benefit

Describe the clients/recipients who are to benefit from the achievement of the objective.

Measurable within a specific time frame

Ensure that progress towards achievement of the objective can be measured/quantified with departmental objective indicators over the medium to long term.

Explicit relationship between departmental objectives and outputs.

Articulate how output delivery will contribute to the achievement of the objective.

Examples

☑

Departmental objective	**Output**
Reduced impact of major bushfires and other emergencies on people, infrastructure and the environment	Fire and Emergency Management

Tip

- Do not link every output to every objective as this does not provide meaningful performance information.

Checklist: objective characteristics

A departmental objective of good quality will meet the three checklist criteria below.

Criteria	Checklist
Clear, concise and specific	• Is it unambiguous? • Does it clearly articulate: – What is being delivered/developed – The target audience – Expected standard – When it will be achieved
Focus on results	• Does it accurately reflect Government's service delivery ambitions? • Is the objective realistically achievable? • If all outputs are successfully delivered will this achieve the departmental objective?
Measurable and timely	• Is the objective readily measurable through choice of appropriate indicators? • Will demonstrable progress towards achieving this objective be possible in the medium term?

Attachment 4: Further guidance for developing objective indicators

Attributable

Departmental objective indicators should focus on impacts that can reasonably be achieved through delivery of outputs. Indicators should be set at a level that minimises the extent of factors outside the department's control and identifies what is to be achieved, rather than what outputs are delivered or what processes are followed.

There are many tools to assist in developing performance information, including Program Logic, and the Investment Logic Model (ILM). [10]

Focus on measurable results

Seek a clear and explicit alignment of outputs to departmental objectives. Good quality indicators demonstrate how output delivery contributes to achieving the departmental objective. Indicators should be relevant and reflect what the department is trying to achieve, not simply what is measurable.

Pitched at a level to best inform performance analysis and decision-making

Set departmental objective indicators at a level that will best support the analysis of performance and decision-making. This should be determined on a case-by-case basis having regard to existing indicators and the costs associated with developing new indicators.

Use existing data sets

Wherever possible, use existing data sets as long as this provides good measurement for the indicator. Departments should consider existing indicators, data sets and measures that could be used to demonstrate the contribution of outputs towards the achievement of departmental objectives. This could include performance information provided to the national reporting framework for the Council of Australian Government, information in the Report on Government Services, or other measures used in departmental reporting. If additional data collection is required, the costs involved should be balanced with the benefits (usefulness) of using the data collected.

Describes a change

Indicators reflect the effectiveness of the department's outputs in contributing to achieving the objectives and they should help determine whether the target group/community is 'better off'.

Examples

- ☑ 'Year 12 or equivalent completion rates of young people'
- ☑ 'Property loss from structure fire (current year dollars per person)'
- ☒ 'Leads policy development on key priority issues' [*is this measurable/quantifiable?*]
- ☒ 'The prevalence of selected chronic disease risk factors is reduced' [lacks specificity– which chronic disease factors should be measured]

[10] Further information on the ILM can be found at: http://www.dtf.vic.gov.au/Investment-Planning-and-Evaluation

Checklist: objective indicator characteristics

An objective indicator of good quality will meet all checklist items.

Criteria	Checklist
Attributable	• Is the indicator reflecting the impact of the contributing outputs? • Is the indicator influenced by external factors outside the control of the department?
Available	• Will data be available in a timely manner – at least annually and over the entire forward estimates period? • Does it already exist? • Is it sufficiently robust?
Comparable	• Does the indicator allow for comparisons overtime, between target groups and across jurisdictions?
Influenced by key stakeholders	• Have those responsible for delivering the outputs been consulted, such as non-departmental service providers? • Has the Minister responsible for delivering the outputs been consulted?
Manageable	• Have the costs of data collection been considered? • Does the benefit created by gathering data outweigh the burden? • Have other more cost effective indicators been considered?
Verifiable	• Is the methodology and process for data collection and indicator reporting clearly documented? • Are processes in place to maintain performance records to a standard which allows an independent auditor to verify integrity?

Attachment 5: Further guidance for developing outputs

Identify the range of goods and services being provided

Departments should review all of the goods and services being delivered and determine which can be grouped as similar services or those trying to achieve the same objective. This should also occur when new funding for a program or initiative is being considered by Government.

Test the size of the output

Consolidation of goods and services reduces transparency and accountability, and makes it difficult to assess performance. For example, an output with too many services or programs bundled together diminishes the usefulness of performance measures, as indicators of true performance for each service or program. Departments should review the size of the output using the following criteria:

- Discrete products or services – are the services closely related or homogenous in nature?
- Targeted – are the services targeting a specific problem for the same customer?
- Purpose – is the purpose of the services the same?
- Size/materiality – is the output less than 10 per cent of the department's total output cost and less than 0.5 per cent of the State's total budget?
- Control/influence – to what extent can a single person be directly responsible for the performance of the output?
- Function – does the output deliver a legislated function or lend itself to machinery of government changes? (e.g. Consumer Affairs)

If answering no to one of the first four questions, the output is too large. An output assessment tool is provided (at the end of this section), which tests whether an output should be made smaller.

Another consideration is whether an output reflects legislated functions, as these agencies are often established to deliver a specific objective, which lend itself to being a separate output. However, depending on the size of the agency it may be more appropriate to have multiple outputs.

Describe the output

Output descriptions should be clear and concise, and use language that is suited to a general audience. They should detail the range of goods and services provided and the programs and activities undertaken.

Explicit references should be made to the broad activities, targeted beneficiary of the goods or services, and the intended impact of successful service delivery.

Output descriptions should demonstrate alignment with one departmental objective.

Output titles should make clear the nature of services being delivered. Where possible, it should encapsulate what is being delivered and to whom, and describe a deliverable rather than a problem.

Examples – Titles

☑ Prisoner Supervision and Support

☑ Ports and Freight Network Improvements and Maintenance

☒ Aboriginal Affairs

☒ HACC Primary Health, Community Care and Support

Examples – Description

☑ Provide community based supervision, health care and support services to divert young offenders from the youth justice system and minimise the likelihood of further offending. [Identifies activity, beneficiary and result]

Tips

- Write output titles and descriptions in plain English.
- Abbreviations, jargon and technical language should not be used.

Checklist: output characteristics

An output specification of good quality should meet the following checklist items.

Criteria	Checklist
External focus	• Does the output deliver services to an external customer? • Does the external customer derive a benefit from the delivery of services? • Is the output externally focused and not measuring or reflecting departmental inputs?
Objective focus	• Does the output contribute to the achievement of departmental objectives? • Can a link be demonstrated between the output and its impact on the achievement of departmental objectives? Is it sufficiently robust?
Clear	• Does the output assist Government to understand what it is funding and what it will receive for its money, which is described through performance measures in terms of: – the cost per unit of the output; – the quantity of the output units to be delivered; – levels of quality of the services to be delivered, and – the timing or frequency of the delivery of products and services? • Does the output inform Parliamentarians and the community of government performance about what services are being delivered, to whom and why? • Does the output enable departments (and managers and staff in departments) to understand what they must deliver and why?
Measurable	• Does the output have an impact on the department's objectives that can be measured? • Can the output demonstrate the impact it is designed to achieve? • Can the output be routinely measured so that Government will know if it is receiving what it paid for?
Comparable	• Does the output enable Government to consider whether there are alternative providers for the output by enabling comparison/benchmarking of performance for delivery of similar services?

Assessment tool: output disaggregation

The assessment approach and summary ratings for output disaggregation are mapped out below. **If an output an output meets most of the criteria then it is less likely suitable for disaggregation.** A summary assessment along the spectrum of suitability for disaggregation will be made on the basis of the assessment against each of the criteria. If an output could not be disaggregated, Departments must assess the individual output performance measure to test its completeness and appropriateness.

Output disaggregation				
Assessment criteria	**Key considerations**	**Summary ratings**		
		Disaggregate	**Partially disaggregate**	**Do not disaggregate**
Does the output represent an appropriate proportion of the Departments/State budget?	Does the output cost satisfy the DTF Performance Management Framework guidance material regarding 10 per cent of total Departmental or 0.5 per cent of Government expenditure?	More than 10% of the Department's or 5% of the State's budget	n/a	Less than 10% of the Departments or 0.5% of the State's budget
Does the output line up with the Organisational and/or delivery agencies structure using a consistent service delivery model?	• Can output and its performance measures be easily attributed to core functional responsibilities and service delivery mechanisms within the department or Portfolio Agency? • Does the output line up to homogenous service delivery mechanisms?	Limited (if any) alignment between output and structure and inconsistent service delivery model	Some degree of alignment between output and structure and relatively consistent service delivery model	Strong alignment between output and structure and consistent service delivery model
Is aggregating the output likely to provide improved transparency regarding the Departmental expenditure/performance?	Is aggregating the output likely to provide DTF with an improved understanding of how the funding is allocated across core services and expenditure types and what is delivered in return?	Disaggregated output likely to provide DTF with an improved understanding of expenditure/performance	Disaggregated output may provide DTF with an improved understanding of expenditure/ performance	Disaggregated output unlikely to provide DTF with improved understanding of expenditure/performance

Output	[text]	Output cost	[$]
Output description		% of Departmental budget	[%]
[text]		% of State budget	[%]

Output disaggregation		
Assessment criteria	**Summary assessment**	**Comment**
Does the output represent an appropriate proportion of the departments/state budget?	[Copy relevant summary rating from the output disaggregation assessment table]	
Does the output line up with the organisational and/or delivery agencies structure using a consistent service delivery model?	[Copy relevant summary rating from the output disaggregation assessment table]	
Is disaggregating the output likely to provide improved transparency regarding the Departmental expenditure and performance?	[Copy relevant summary rating from the output disaggregation assessment table]	
Summary	[Findings, actions and recommendations]	

Attachment 6: Further guidance for developing performance measures

Performance measures: quantity, quality, timeliness, cost

Departments must consider four key attributes when developing performance measures:

Quantity performance measures

Describe outputs in terms of how much, or how many. Quantities will conceptually be different for each output type. However, quantity could take the form of the number of discrete deliverables or capacity provided. They also tend to demonstrate the volume of work being undertaken.

A quantity measure can be:

- wholly within the control or influence of the department (e.g. compliance services) or is a known activity (State elections); or
- affected by demand to a certain extent, but the target can reasonably be forecast/quantified (e.g. number of students enrolled in public schools, court cases heard, family services cases provided to aboriginal families); or
- measuring capacity or capability for outputs where this is the primary function being purchased by Government. For example, *Emergency management permanent operational staff*, or *staff (or time) engaged in policy development* may be appropriate measures when there is wide volatility of goods and services delivered between years.

Quantity measures can often be converted into efficiency measures by combining them with cost to show the unit cost. This may not be appropriate in all situations.

Quality performance measures

Describe how well a service is being delivered i.e. whether output delivery has been up to the expected standard of performance. Standards might be contained in legislation, agreements, or other requirements. Quality measures can also demonstrate if output delivery has met comparable better practice benchmarks associated with key objectives and intended results.

Measurement of compliance with legislated standards should be used sparingly, as this is usually a basic minimum standard rather than the quality of service desired by Government. These measures do not allow for continuous improvement from year to year. However, where the main function of the output is delivering a legislated requirement, it may be appropriate to use compliance with legislation as a measure.

A fundamental aspect of quality is the assumption that the product or service is defect free and fits the purpose for which it was intended. Quality can be achieved through using specific criteria (accuracy, completeness, accessibility, customer satisfaction, continuity or equity of supply etc.). Quality in itself is only one dimension of effectiveness and does not necessarily fully represent how effective a service is (e.g. a service could be high quality but not effective).

Timeliness performance measures

Provide parameters for how often, or within what time frame, outputs will be delivered.

Timeliness may be a measure of either:

- efficiency, measured by turnaround times; or
- effectiveness, measured by waiting or response times.

Cost performance measures

Reflect the full accrual cost to a department of producing an output. The cost measure for each output is the total cost and includes State appropriation revenue, as well as funding from other sources to produce the output. Detailed information on determining the output cost can be found in Attachment 8. Further detailed business rules for determining output price is covered in *Chapter 4 Budget process.*

Other areas of consideration

Balanced set of measures

The mix of quality, quantity, timeliness and cost measures for each output should give a balanced and complete performance picture of what the output is trying to achieve and how the delivery of the output will be measured.

Interaction between measures can provide insights into service performance. It is important to have measures that are closely linked to individual bundle of services within an output. These measures need to be presented in a way that allows inference to be drawn by signalling the interaction to stakeholders. For example, by using language or terms and/or presentation them together.

Cover all the major activities

The department should select measures that assess all the important aspects of the output being delivered, such as key deliverables and critical activities to explain whether the department has efficiently and effectively delivered these outputs.

Alignment with objective indicators

There should be alignment between output performance measures and objective indicators. Performance measures, in conjunction with objective indicators, should help demonstrate a department’s achievements compared to intentions.

Use existing data sets

Departments should consider existing measures and data sets that could be used to demonstrate output performance. This could include performance information under the national reporting framework for the Council of Australian Governments (COAG), information in the Report on Government Services, or other measures used in departmental reporting.

Assumptions and methodology

Departments should document the assumptions and methodology underpinning the performance measures. These should include how the supporting data is calculated or derived, source and frequency of data collection, as well as any other business rules and assumptions.

Setting targets

Targets should be realistic and achievable. They should provide meaningful information on the expected level of goods and services to be delivered, and enable Government to prioritise actions, set agreed direction, focus attention and resources and provide evidence of performance. Targets should not be stretch or aspirational targets, as the final performance statement is a delivery contract between Government and a department.

In developing output performance targets, departments should:

- be clear about what is to be delivered;
- examine past trends, variations in performance and the performance of other providers;
- formulate targets drawing on existing measurement data from a range of sources, where possible;
- consider the extent of influence the department can exert over the service to be delivered; and
- consult with relevant ministers where required.

Performance measures should remain consistent over time to enable comparison of performance. However, targets should be reassessed and amended where:

- there is constant over or underperformance against the current target;
- a policy change makes the current target unachievable; or
- there is a change in the funding allocated to the delivery of goods and services in an output.

Note that a target that is too ambitious may encourage misrepresentation of performance. This could occur where desire to meet an unrealistic target results in an overstatement of actual performance.

Example

☑ ‘Service provision rating (Commissioner assessment of Secretariat performance)’ *[clear data source]*

☑ ‘Timely handling of objections (within 90 days)’ *[defines how it is being measures]*

☒ ‘Arts portfolio public body annual reports tabled in Parliament by the required statutory dates’ *[not challenging enough as this is a basic legislated requirement]*

☒ ‘Progress of Regional Rail Link’ *[not clear whether the measure relates to proportion of funding spent, milestones met, track laid etc.]*

Tips

- Performance measures should be written in plain English and be obvious to the public as to whether the outcome was positive or negative.
- Targets of 0 or 100 per cent should not be used in most cases as they have no capacity to demonstrate continuous improvement from year to year and may not be sufficiently challenging.
- Targets involving wide ranges should not be used in most cases as they allow a wide range of performance to be considered a positive result and may not be sufficiently challenging.

Checklist: performance measurement characteristics

The eight **accurate** criteria below indicate a better practice standard in public sector output performance measurement information. The following checklist should be used to assess the quality of each output performance measure and whether the set of performance measures achieves a faithful representation of the output performance. An output performance measure of good quality will meet all checklist items.

Criteria	Checklist
Attributable	
High quality output performance measures should not be unduly influenced by changes in external factors, such as economic and environmental conditions. Successful delivery of the activities/programs within an output should be attributable to the actions of the organisation.	• Is the output performance measure directly attributable to programs and/or activities delivered by the organisation under the output?
It is recognised that in some outputs, external factors can impact on the quantity, quality, timeliness and cost of service delivery. For example, ambulance services and court cases, where the level of demand may be primarily determined by factors outside the organisation's control. However, measures of these services are appropriate where the delivery of these services is within the actions of the organisation and responsibility for performance is considered to rest with the organisation.	• For outputs affected by demand, has the organisation put in place mechanisms to forecast and manage demand?
Clear	
High quality output performance measures should be written in clear, concise, and non-technical language so that they can be easily understood and easily related to the performance of the output. There should be no ambiguity about what is being measured.	• Is the measure written in clear language and unambiguous? • Is the measure readily interpretable by Parliament and the community? • Is it clear what the measure is intended to show and why it is important? • Is it clear whether exceeding, precisely achieving or coming under the target is a good result?
Comparable	
High quality output performance measures should allow an organisation to demonstrate how its service delivery compares to past performance, performance across similar outputs, and performance in services delivered by other providers. This enables Government to assess whether the output represents value for money.	• Does the measure allow for comparisons of the output's performance: – over time – across similar programs, program areas or initiatives – across similar jurisdictions – between similar outputs delivered by other providers? • Does the measure enable benchmarking between providers of similar outputs?

Criteria	Checklist
Useful Performance measures should be capable of being used in a variety of ways. In addition to assessing and reporting performance, they should also inform decision making by the organisation and by Government as well as helping other stakeholders understand the organisation’s performance. The data should be available to meet relevant planning and reporting timeframes.	• Can the measure be used to inform government decision making? • Can the measure be used for internal management, and for external reporting and decision making? • Does the measure and target clearly set out performance expectations for the output? • Have key stakeholders been consulted (i.e. relevant Ministers, managers and staff responsible for service delivery)? • Do key stakeholders regard the measure as useful? • Can the data be collected at a frequency that aligns with planning and reporting cycles?
Relevant High quality output performance measures should be a measure of the services delivered. Performance measures should align with both the departmental objectives and the relevant output.	• Does the measure accurately reflect performance against what is intended to be achieved? • Does the measure align with departmental objectives? • Does the measure provide a good indication of success? • Does the set of measures provide coverage of the key aspects of performance? • Is it clear how achieving the target will assist in achieving departmental objectives?
Achievable Performance targets need to be challenging (i.e. represent best value for money), but still achievable. Targets should act as a driving goal for those working to achieve it. This is a balancing exercise: on the one hand, targets that are too achievable do not encourage continuous improvement, and, on the other hand, targets that are impossible to achieve will not provide Parliament and the public with useful information. Targets should not be stretch/aspirational targets but delivery targets.	• Does the performance measure provide a challenging, but realistic target for the organisation to achieve? • Can the performance target be altered to address under or over performance, in line with Government budgetary decision making from year to year?
Transparent Performance measures need not only to be transparent themselves, but the information collected also needs to be transparent. It must be clear how the performance data is collected (and in some circumstances why), and any limitations must be disclosed. Information must also reflect new initiatives and new funding, must be reflected by changes in performance measures and/or targets. (Note, this information is maintained by departments, but not published in the departmental performance statements).	• Is there a clear management audit trail of data treatment, calculation and reporting? • Has the measure been tested for unintended consequences? • Have counterbalancing measures been considered where unintended incentives have been identified? • Can the performance measure target be changed to reflect increased funding? • Have any data shortcomings and/or limitations been disclosed?

Criteria	Checklist
Evidence based High quality output performance measures should have a sound evidence base. Data should be available so that results against the performance measures can be observed and reported.	• Have a common set of current data definitions and key terms been communicated to all involved in the collection of data? • Have the methodologies (data collection, processing and monitoring procedures) been documented? • Are there standards and procedures for the collection, storage and retrieval of data? • Are processes in place to retain performance records to a standard that allows an independent auditor to verify information integrity? • Are processes in place to reassess the measure (and the associated output) each year for the annual state budget process? • Have the data and methodology underpinning performance measures been verified for accuracy prior to publication?

Documentation and reporting of performance measures

Measuring performance requires timely and relevant collation and analysis of data. Data must be collected at set timeframes and must be accurate and comparable to achieve a meaningful picture of the performance.

The utility of performance information can be optimised if they are integrated back into planning and decision making. It is vital that departments provide DTF the following output information required in the publication of budget papers:

- output that the performance measure relates to;
- performance measure code;
- performance measure name;
- unit of measure; and
- type of measure – quantity, quality, timeliness or cost measure.

To support this information, departments also need to keep a record of the following:

- business purpose of the performance measure and what the measure is assessing;
- detailed definition of the terms used;
- how the data is collected, measured and calculated; and
- frequency of measurement.

Examples of policy and advisory related performance measures

Performance measure	Target
Technical quality of policy advice papers assessed by a survey with a methodical robustness of 90 per cent.	At least an average of 70 per cent
The satisfaction of the relevant Minister with the policy advice service, per the common satisfaction survey.	At least 70 per cent
The total cost per hour of producing outputs	$
All new significant operating expenditure proposals are subject to cost benefit analysis or similar.	100%
Audit opinion issued by the Victorian Auditor-General on the Financial Statements of the Government.	Unqualified
Compliance with risk management policies and parameters for management of Crown lending and Crown bank accounts	No breaches
Annual Report, including financial statements, is produced in accordance with the *Financial Management Act 1994* requirements and free from material errors.	Achieved
Advice to entities and ministers on budget processes was provided within agreed timeframes.	100 per cent compliance
Degree of compliance with deadlines of briefings to the ministers, and or senior executives following release of public reports	100 per cent compliance

Assessment tool: performance measures – completeness

The **performance measure completeness consideration tests** whether the outputs performance measures represents the main components of expenditure and whether there are relevant units of accountability for performance and/or efficient/effective service delivery.

Performance measure completeness – general criteria				
Assessment criteria	**Key considerations**	**Summary ratings**		
		Yes	**Partial**	**No**
Overarching consideration Does the mix of performance measures reflect the main expenditure components of the output?	Are the respective performance measures across the output representatives of the main components of expenditure and are there relevant units of accountability for performance and/or efficient/effective service delivery? If NO – what additional measures should be incorporated?	Yes	n/a	No – Key components are missing (Recommend additional measures are added)

Performance measures completeness – Does the mix of performance measures reflect the main expenditure components of the output?			
Output	**Activities**	**Key elements**	**Captured under current BP3 reporting?**
[Output title]	[Activity 1]	[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
	[Activity 2]	[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
	[Activity 3]	[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
		[measurable element]	[Is the element currently captured in BP3 reporting?]
Summary			
Suitability for disaggregation	**Suitable**		**Unsuitable**
	Note: Based on your assessment, position the dot to reflect the output's suitability for disaggregation.		

Organisation structure
[Group/Division]
Area 1
Area 2
Area 3
Area 4
Area 5
Area 6
Area 7

Instruction: Adjust the red circle to reflect the proportion of the division/area covered by the output.

Assessment tool: performance measures - appropriateness

The **performance measure appropriateness consideration** assessment approach and summary ratings are comprised of general and specific considerations. The general consideration tests whether the suite of measures reflect the main expenditure components of the output. The specific consideration is sequential and considers the existing measures individually to ascertain if:

- a measure is providing directly relevant and detailed information, then it is recommended to be maintained;
- a measure is not providing relevant information, consideration is given to other more detailed available information that may be relevant; and
- there is no alternative information sources, then consideration is given whether to discontinue the measure or another more relevant measure can be developed.

Performance measure appropriateness (specific) sequential criteria				
Assessment criteria	**Key considerations**	**Summary ratings**		
		Yes	**Partial**	**No**
Does the performance measure provide relevant information to facilitate informed DTF analysis and advice?	Does the performance measure provide the level of detail required into Departmental performance to assist with contextualising future DTF advice? • If YES – then maintain as is	Yes – Measure provides directly relevant and detailed information to support DTF analysis and advice. (Recommend measure is maintained)	Partial – Measure provides information that may support DTF analysis and advice.	No – Measure does not provide information to support DTF analysis and advice.
If Partial or No to above Is there (or is it likely that) more granular/relevant data/information related to the specific measure or activity is available to facilitate informed DTF analysis and advice?	Does the Department have further information and detail that aggregates up and/or provides more relevant performance information than that currently reported? • If YES – then recommend measure is disaggregated or revised	Yes – More detailed and relevant information is available. (Recommend measure is disaggregated or revised)	Partial – More detailed information may be available and of relevance.	No – Further detail is not currently collected or reported within Department.
If Partial or No to above Is there another more relevant measure that can be developed that would facilitate informed DTF analysis and advice?	Is there more relevant measure or data point that would better facilitate informed DTF analysis and advice?	Yes – (Recommend a relevant replacement measure)	n/a	No – Relevant measure cannot be easily replaced (Recommend measure is discontinued)

Performance measures appropriateness						
Performance measure	Unit of measure	201X-1X target	Assessment criteria			Comment
			Facilitates informed DTF analysis and advice?	Is more granular data/ information available?	Should measure be replaced or discontinued?	
Quantity						
Quantity measure 1			[assessment rating]	[assessment rating]	[assessment rating]	
Quantity measure 2			[assessment rating]	[assessment rating]	[assessment rating]	
Quantity measure 3			[assessment rating]	[assessment rating]	[assessment rating]	
Quality						
Quality measure 1			[assessment rating]	[assessment rating]	[assessment rating]	
Quality measure 2			[assessment rating]	[assessment rating]	[assessment rating]	
Quality measure 3			[assessment rating]	[assessment rating]	[assessment rating]	
Timeliness						
Timeliness measure 1			[assessment rating]	[assessment rating]	[assessment rating]	
Timeliness measure 2			[assessment rating]	[assessment rating]	[assessment rating]	
Timeliness measure 3			[assessment rating]	[assessment rating]	[assessment rating]	
Summary						

Attachment 7: Performance measure footnote requirements

Mandatory requirements
PERFORMANCE MEASURE FOOTNOTES

Footnotes are required for the following:

- All new performance measures
- All renamed/edited performance measures
- Replacement or consolidation of performance measures
- All proposed discontinued measures/outputs, which include:
  - Performance measures previously reported that are proposed to be discontinued in the budgeted financial year
  - Performance measures with changes in source data/methodology used to measure target OR changes in unit of measurement which renders past performance history incomparable
  - Performance measures that have been reclassified (i.e. quality, quantity or timeliness)
- Any complex measures where having an explanatory footnote would assist readers to understand the measure and its purpose
- All movements in targets (including output costs) between years;
- All significant movements between targets and expected outcomes (including output costs and movements in comparison to previous years)
  - Significant means a five per cent variance (increase or decrease) or a change that may be of public interest

Wording for standard footnotes

To assist you to construct footnotes and to ensure consistency, the following wording is to be used.

- **New performance measures**

  'New performance measure for 20xx-yy[11] to reflect Government priorities regarding <xyz>/new funding/etc.'

- **Renamed/edited performance measures**

  'This performance measure replaces the 20xx-yy[12] performance measures <xyz>. The new measure is the same as the previous measure except for <xyz> and measures the same activity.'

  'This performance measure renames/edits the 20xx-yy[13] performance measures <xyz>. The new measure reports on the same activity as the previous measure however has been amended for increased clarity.'

  * Note: renamed/edited performance measures are published in the performance statements. The previous measures are not required to be published as a proposed discontinued or substantially changed measure.

- **Replacement or consolidation of performance measures**

  'This performance measure is proposed to replace the 20xx-yy performance measure <xyz>. It has been amended/replaced to more accurately reflect <xyz>.'

  'This performance measure is proposed to consolidate the 20xx-yy performance measures <xyz> and <xyz> into a new measure for 20xx-yy. These measures have been consolidated to <xyz>.'

  * Note: previous year performance measures that are proposed to be replaced or consolidated are required to be published as a proposed discontinued or substantially changed measure.

- **Proposed discontinued measures**

  'This performance measure is proposed to be discontinued as <it is no longer relevant/it has been replaced by the 20xx-yy performance measure '…'/previous budgets did not allocate funding for the program beyond 30 June 20xx>.'

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[11] Budgeted financial year
[12] Previous budgeted financial year
[13] Previous budgeted financial year

Mandatory requirements
PERFORMANCE MEASURE FOOTNOTES

- **Proposed discontinued measures as a result of a machinery of Government change**

  'This performance measure is proposed to be discontinued due to machinery-of-government changes effective <day month 20xx>. This measure was previously presented as part of the <xx objective> of the former <Department>. Reporting on this measure is no longer <appropriate/relevant> as <it was a function of the former department/a proportion of the measure relates to Department x/....>.'

  * Note: this footnote is intended to capture full and partial transfers and functions to and from departments as a result of a machinery of Government change.

- **Performance measures transferred between outputs**

  'This performance measure is transferred directly from the <xyz> output.'

- **Machinery of government change**

  'This performance measure has been introduced as a result of machinery of government changes that resulted in the transfer of <xyz> functions <out of/into> the Department.'

- **Significant and/or material movements (a) in targets between years; (b) between targets and expected outcomes within or between financial years; or (c) output costs between years**

  'The higher/lower 20xx-yy target reflects <additional services or funding/the effect of…>.'

  'The 20xx-yy expected outcome is <lower/higher> than the 20xx-yy target due to <….>.'

  * Note: footnotes explaining changes in targets or the setting of targets must include:

  - at a minimum, whether the change is due to changed government policy, funding or program delivery, or changed external circumstances (i.e. Commonwealth, consumer trends etc), and
  - factors that have contributed to any targets being set at levels that could be reasonably interpreted as being significantly understated compared to the previous year.

Footnotes involving per cent and percentage point

A percentage point is the unit for the arithmetic difference of two percentages. e.g. going from 80 per cent to 84 per cent is a 4 percentage point increase (not a 4 per cent increase).

This means that if the target is 80 per cent and the expected outcome is 84 per cent, the variance is 5 per cent, which requires a footnote.

Attachment 8: Methodology for output costing

This section sets out the costing methodology for outputs.

All departmental operating costs must be allocated to outputs. Departments should ensure the costing methodology applied to the full costing of outputs:

- is documented and all cost allocation algorithms are available to DTF; and
- will satisfy audit scrutiny.

Departments need to estimate as accurately as possible the total accrual cost of delivering each output to achieve their budgeted operating result. They also need to:

- allocate direct costs associated with output delivery; and
- allocate overheads (including indirect and asset-related costs) which may be involved in delivering more than one output.

Where particular resources are used to deliver several outputs, costs may be allocated against these outputs in proportion to their use of their resources.

Should the department change its output mix this year, it may not be possible to reduce some of these costs immediately, particularly fixed costs, and these will have to be re-allocated across remaining outputs.

Methodology

The following costing methodology should be applied as a minimum for the full costing of outputs.

Overview of the methodology

Step 1 : Specify outputs	• Specify all outputs produced by the department
Step 2 : Identify all costs of the department	• Identify all costs incurred for the financial period in which the output is being costed
Step 3 : Assign direct costs	• Identify all direct costs • Decide on the methods of cost assignment to be applied • Calculate the direct costs of the output
Step 4 : Allocate indirect costs	• Identify all indirect costs • Decide on the cost drivers to be applied • Calculate the indirect costs of the output
Step 5 : Add the direct and indirect costs	• Add the direct and indirect costs to arrive at the full cost of producing the output

Step 1: Specify all outputs produced by the department

The total number of units of each output produced should be determined at this stage.

Step 2: Identify all costs to the department

The cost of all resources consumed in the production process must be recognised. Without this, business decisions and assessments of performance will rely on incomplete data and analysis.

It is important that overhead costs, the costs of using assets in the production process and employee entitlements accrued during the period are identified and included in the costing process. The costs should be recognised in accordance with relevant accounting standards and Financial Reporting Directions (FRDs).

Step 3: Assign direct costs

Depending on the nature of the output, direct costs can include salaries, travel, materials, consultancy costs and motor vehicle expenses.

Many different methods of assigning direct costs to outputs are available. The following table outlines some of the methods commonly used.

Method	Description	When useful
Cost Centre Attribution	Direct costs are allocated to cost centres (for example, business units) as they are incurred.	When business units are responsible for the production of one output only.
Time Recording Systems	Employees record the time they spend contributing to the production of each output, or use their judgement to assign time at the end of the period.	Useful for assigning direct labour and other staff costs.
Resource Consumption Accounting	Measure each output's use of resources, such as photocopiers, computers, telephones and printers. The direct costs allocated to outputs for the use of these resources is based on these levels of use; for example, the cost of use of a photocopier might be allocated on the basis of the cost per page and number of pages copied.	When the use of these resources is significant and easily recorded.
Output Accounting	Direct costs are allocated to specific output codes in the department's accounting records.	Only suitable when there is a reasonably simple relationship between outputs and cost centres. Judgement needs to be applied if a department has many outputs to which many cost centres contribute.

Step 4: Allocate indirect costs

Unlike direct costs, indirect costs are not incurred exclusively for one output. Indirect costs include overheads and corporate support functions such as financial and administrative services.

Indirect costs can be allocated using methods within two broad categories – Traditional Methods and Activity Based Costing.

Traditional indirect cost allocation

The extent to which the indirect cost contributes to, or was caused by, the output – what drives the cost, is used as the basis for allocating indirect costs to outputs.

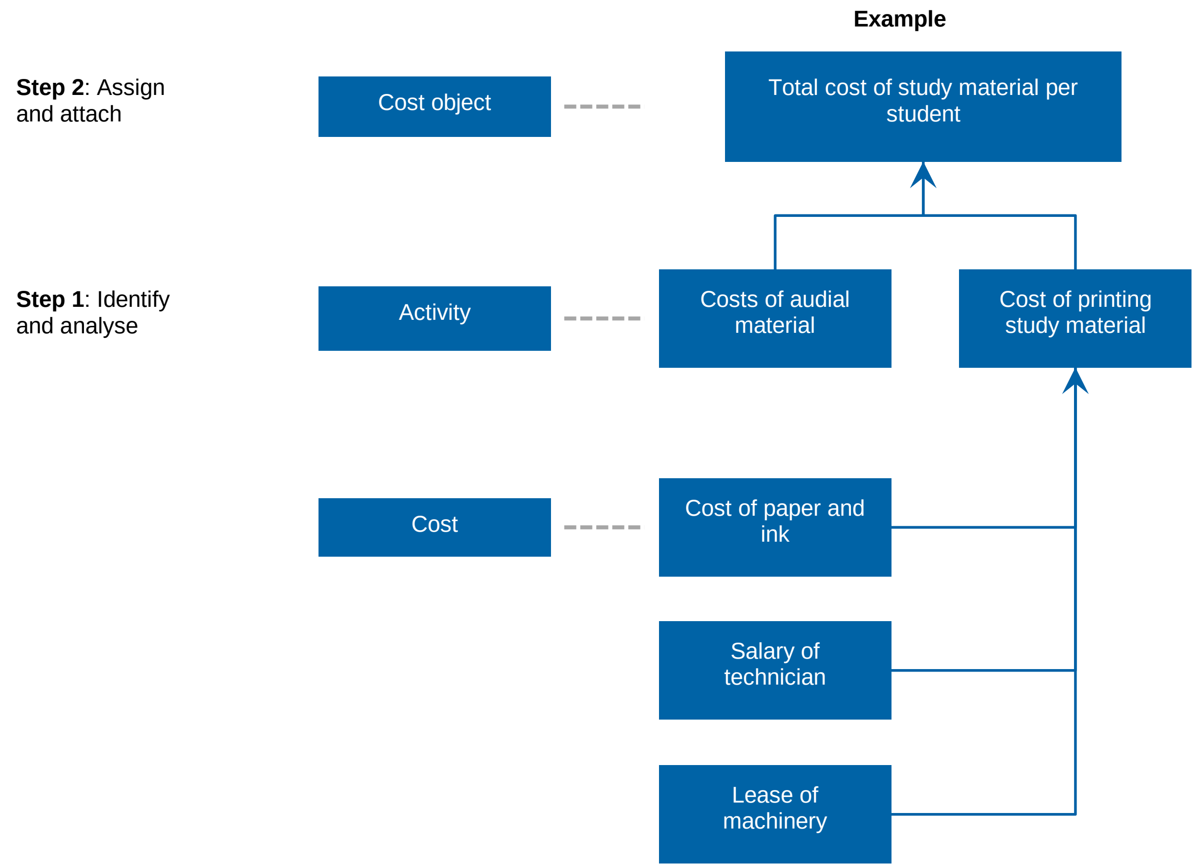
Cost drivers are those activities, events or factors that trigger, or have a strong correlation to, the cost being allocated. By understanding the drivers of costs, the allocation of those costs to outputs can be more accurate.

A simple example would be the allocation of rental and cleaning costs to a range of outputs. A cost driver for this could be the ratio of floor space occupied by each work group to the total floor space.

Activity based costing method

The activities which comprise the production process culminate in the delivery of outputs. This method examines the activities undertaken within an organisation, determines why they are used in the production process, and then assigns costs to outputs according to the consumption of each activity in the production of the outputs. Each activity is costed on the basis of the resources consumed.

The diagram below provides an example for the activity based costing method.



Deciding which cost allocation method to use

The type of cost allocation method used can influence the output costing. Ideally, the method chosen should reflect the pattern of use of resources and their costs in the production process. The cost of the method and how easily it can be applied also need to be considered.

Activity based costing method requires greater understanding of processes and cost behaviour than traditional costing methods. This focus on cost relationships supports better decision-making.

Activity based costing can be more expensive and require more effort than traditional cost allocation methods (particularly in departments with diverse outputs or a relatively high proportion of indirect costs). However, this cost is balanced against the potential for better resource allocation and performance management.

Step 5: Add the direct and indirect costs

Add the direct and indirect costs together to calculate the full production cost for each output.

Dividing the full cost by the number of outputs to derive the average or unit cost.

The table below will help ensure that costings developed for their outputs meet the information quality standards required for consideration in the budget process. These standards are consistent with those required for internal management purposes.

Criteria	Test
Outputs	The specifications of the outputs to be costed meet the standards detailed in this chapter. The units of quantity are clearly defined.
Costing methodology	The costing methodology has been documented. Costing methodology has been agreed with DTF. All costs have been identified and included in the costing process. The methods used to assign direct resource costs to outputs reasonably reflect the consumption of resources and activities in the production of the outputs. The methods used to allocate indirect resource costs to outputs reasonably reflect the consumption of resources and activities in the production of the outputs.

Attachment 9: Lapsing program requirements

Lapsing programs < $5 million

Mandatory requirements
LAPSING PROGRAMS < $5 million

Minimum standards for programs with total funding less than $5 million[14]

Question 1, **justification/problem**: What is the evidence of continued need for the program and role for government in delivering this program?

To satisfactorily answer this question, the department's evaluation and response should demonstrate evidence of:

- to what extent does the program continue to address a demonstrable need and is responsive to the needs of Victorians;
- to what extent the department has investigated other options to address the identified need or problem;
- why the program continues to be the best way to respond to the problem and deliver the intended outcomes;
- how the economic, environmental and social conditions have changed since the program was funded and how continuation of the program will meet these conditions;
- the market place cannot deliver the program;
- there are no similar services being provided by the Victorian Government, the Commonwealth, or NGO sector that have commenced since the program's inception; and
- the capacity (resources and monetary) and capability of the department/entity to continue the program while responding to any changes found as a result of the evaluation.

The department should highlight relevant academic thinking and national and international practices to program delivery (i.e. such as through a literature review).

Question 2, effectiveness: What is the evidence of the program's progress toward its stated objectives and expected outcomes, including alignment between the program, its output (as outlined in BP3), departmental objectives and any government priorities?

To satisfactorily answer this question the following information should be provided as a minimum:

- clearly articulate the stated objectives of the program and outcome it was seeking to achieve (at start up and any revisions), why the program approach was considered the best way to achieve the outcomes. If the objectives of the program were not clearly articulated at start up, supplementary explanatory information is required;
- descriptive alignment between the program's stated objectives, its output, departmental objectives, intended outcomes/impacts and any stated government priorities;
- clearly articulate and demonstrate the impact of the service on clients;
- provide performance results based on basic quantitative output and outcome data (e.g. number of clients seen, targeted client survey). Qualitative data may also be provided, however greater weighting will be given to quantitative information provided;
- where full year data is not available, departments are required to provide any available data along with any assumptions made;
- where suitable, external factors outside of the department's control should be identified to provide context for evaluation results around the achievement of outcomes; and
- describe any quantifiable unintended benefits and costs.

[14] The total program funding relates to funding provided over the four years (if applicable) prior to the date at which the program is scheduled to lapse.

Mandatory requirements LAPSING PROGRAMS < $5 million
Question 3a, funding/delivery: Has the program been delivered within its scope, budget, expected timeframe, and in line with appropriate governance and risk management practices?
To satisfactorily answer part a) of this question the following information should be provided at a minimum: • detail the original scope and any scope changes (including associated funding and objective/performance adjustments) agreed by government; • total approved budget (including but separating out from original approval any agreed scope variations), program costs and major cost drivers; • list of the price paid by Government and all additional funding provided to the program over the past three years (as applicable); • list the total costs incurred for the delivery of the program (including disaggregation by expense category) for each of the three previous years (as applicable); • a breakdown of program expense categories; • all entities which charge expenses to the program cost; • brief timeline and status of program delivery implementation. If not delivered on time or on budget, a clear explanation of why. If any variations to the timeline for program delivery have been approved by government over the life of the program this should be highlighted; and • demonstrate why the governance and risk management practices surrounding the program are appropriate. If the department considers they are not appropriate, explain why and describe proposed changes.
Question 3b, efficiency: Has the department demonstrated efficiency and economy in relation to the delivery of the program?
To satisfactorily answer part b) of this question the following information should be provided at a minimum: • brief statement of the extent and level of any efficiencies realised in the delivery of the program (e.g. how the program is being delivered at lowest possible cost without compromising quality, any improvements that have led to downstream efficiencies).
Question 4, risk: What would be the impact of ceasing the program (for example, service impact, jobs, community) and what strategies have been identified to minimise negative impacts?
To satisfactorily answer this question, provide a brief (1 to 2 paragraphs) outline of: • how the department could successfully exit from delivering the program if government so desired; • what the impact would be (both internal and external and direct and indirect); and • what strategies have been identified to minimise these impacts. Departments are not required to look at alternate policy/program options in answering this question.
Question 5a, if further funding was provided: Reassess funding required to deliver the program using data collected through service delivery. Does the initial funding allocated reflect the true cost required to deliver the program?
To satisfactorily answer part a) of this question the following information should be provided at a minimum: • identify cost drivers and gaps between estimated and actual costs; • comparable benchmarking of program costs and processes; and • expected changes in funding needs if further funding was provided. For example, the cost of delivering a program is generally expected to be higher in the first few years due to initial set up costs and training costs. **Question 5b, if further funding was provided:** What level of efficiencies could be realised? To satisfactorily answer part b) of this question, provide a brief (1 to 2 paragraphs) outline of the level of efficiencies which ongoing funding could provide including clear explanation as to how this information was derived.

Mandatory requirements LAPSING PROGRAMS < $5 million
Evaluation report In instances of a single program evaluation, the evaluation report should briefly answer the questions above in **no more than 10 pages**, not including any appendices. It is acknowledged that where there are multiple programs within a strategy, the length of the report may be greater.

Lapsing programs ≥ $5 million

Mandatory requirements LAPSING PROGRAMS ≥ $5 million
Minimum standards for programs with total funding equal to or greater than $5 million[15]
Question 1, **justification/problem**: What is the evidence of continued need for the program and role for government in delivering this program?
To satisfactorily answer this question, the department's evaluation and response should demonstrate evidence of: • to what extent does the program continue to address a demonstrable need and is responsive to the needs of Victorians; • to what extent the department has investigated other options to address the identified need or problem; • why the program continues to be the best way to respond to the problem and deliver the intended outcomes; • how the economic, environmental and social conditions have changed since the program was funded and how continuation of the program will meet these conditions; • the market place cannot deliver the program; • there are no similar services being provided by the Victorian Government, the Commonwealth, or NGO sector that have commenced since the program's inception; and • the capacity (resources and monetary) and capability of the department/entity to continue the program while responding to any changes found as a result of the evaluation. The department should highlight relevant academic thinking and national and international practices to program delivery (i.e. such as through a literature review).
Question 2, effectiveness: What is the evidence of the program's progress toward its stated objectives and expected outcomes, including alignment between the program, its output (as outlined in BP3), departmental objectives and any government priorities?
It is important to note that there is no particular way to choose the most appropriate method to evaluate a program, given that most methods of data collection and analysis have some bias or limitation. For a program of this size, cost and complexity, more sophisticated approaches (research, primary data collection and complex analytical models) are likely to be needed and require more time, expert knowledge and resources. Data may include, but not be limited to, quantitative data collection methods (e.g. data such as ABS census data) and quantitative analysis methods (e.g. numerical observations and categories, cost benefit and statistical analysis). • Note – while qualitative data collection methods (e.g. open ended interviews, direct observation or written documents) and qualitative analysis methods (identifying themes, concepts and patterns from the data) may also be provided, greater weighting will be given to quantitative information provided. There should be more than one line of evidence. Included in the evaluation should be clear articulation of: • the stated objectives of the program and outcome it was seeking to achieve (at start up and any revisions), and why the program approach was considered the best way to achieve the outcomes. If the objectives of the program were not clearly articulated at start up, supplementary explanatory information is required; • demonstrated alignment of the program's stated objectives, its output, departmental objectives, intended outcomes/impacts and any stated government priorities; and • clear articulation and demonstration of the impact of the service on clients. Where suitable, external factors outside of the department's control should be identified to provide context for evaluation results around the achievement of outcomes.

[15] The total program funding relates to funding provided over the four years (if applicable) prior to the date at which the program is scheduled to lapse.

Mandatory requirements LAPSING PROGRAMS ≥ \$5 million
Question 3a, funding/delivery: Has the program been delivered within its scope, budget, expected timeframe, and in line with appropriate governance and risk management practices?
To satisfactorily answer part a) of this question the following information should be provided at a minimum: • detail the original scope and any scope changes (including associated funding and objective/performance adjustments) agreed by the relevant Cabinet Committee; • total approved budget (including but separating out from original approval any agreed scope variations), program costs and major cost drivers; • list of the price paid by Government and all additional funding provided to the program over the past three years (as applicable); • list the total costs incurred for the delivery of the program (including disaggregation by expense category) for each of the three previous years (as applicable); • a breakdown of program expense categories; • all entities which charge expenses to the program cost; • detailed timeline and status of program delivery implementation. If not delivered on time or on budget, a clear explanation of why. If any variations to the timeline for program delivery have been approved by government over the life of the program this should be highlighted; and • demonstrate why the governance and risk management practices surrounding the program are appropriate. If the department considers they are not appropriate, explain why and describe proposed changes.
Question 3b, efficiency: Has the department demonstrated efficiency and economy in relation to the delivery of the program?

To satisfactorily answer part b) of this question the following information should be provided at a minimum:
• data and evidence of improved efficiency and economy (demonstrating that the program is being delivered at lowest possible cost without compromising quality, highlighting improvements that have led to downstream efficiencies); and
• data and evidence may include, but not be limited to:
  – results benchmarking using performance indicators to measure efficiency and economy to provide assessment of actual performance against past performance or within or across organisations or jurisdictions; and/or
  – process benchmarking to provide information on the reasons for differing levels of performance

Question 4, risk: What would be the impact of ceasing the program (for example, service impact, jobs, community) and what strategies have been identified to minimise negative impacts?
To satisfactorily answer this question, provide a detailed (1 page) outline of: • how the department could successfully exit from delivering the program if government so desired; • what the impact would be (both internal and external and direct and indirect); and • what strategies have been identified to minimise these impacts. Departments are not required to look at alternate policy/program options in answering this question.

Mandatory requirements LAPSING PROGRAMS ≥ $5 million
Question 5a, if further funding was provided: Reassess funding required to deliver the program using data collected through service delivery. Does the initial funding allocated reflect the true cost required to deliver the program?
To satisfactorily answer part a) of this question the following information should be provided at a minimum: • identify cost drivers and gaps between estimated and actual costs; • comparable benchmarking of program costs and processes; and • expected changes in funding needs if further funding was provided. For example, the cost of delivering a program is generally expected to be higher in the first few years due to initial set up costs and training costs. In addition, quantitative evidence must be provided at a minimum: • data and evidence of any discrepancies of the initial funding allocation, the actuals and the estimated additional funding required. Data and evidence may include, but not be limited to: • results benchmarking cost of delivering similar services within the organisation or an industry benchmark; • actual demand versus estimated demand for the program/service; • costs associated with addressing the actual demand (at an aggregated level, e.g. broad average costs); and • a list of assumptions used in cost analysis.
Question 5b, if further funding was provided: What level of efficiencies could be realised?
To satisfactorily answer part b) of this question, provide a detailed (one page) outline of the level of efficiencies ongoing funding could provide including clear explanation as to how this information was derived. The evaluation report should include the following sections: • an executive summary (not more than 3 pages); • introduction and context; • methodology, design and data; • key findings; • key conclusions; and • recommendations. **Evaluation Report** In instances of a single program evaluation, **the main body of the report should be limited to 30 pages, not including appendices**. It is acknowledged that where there are multiple programs within a strategy, the length of the report may be greater.

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