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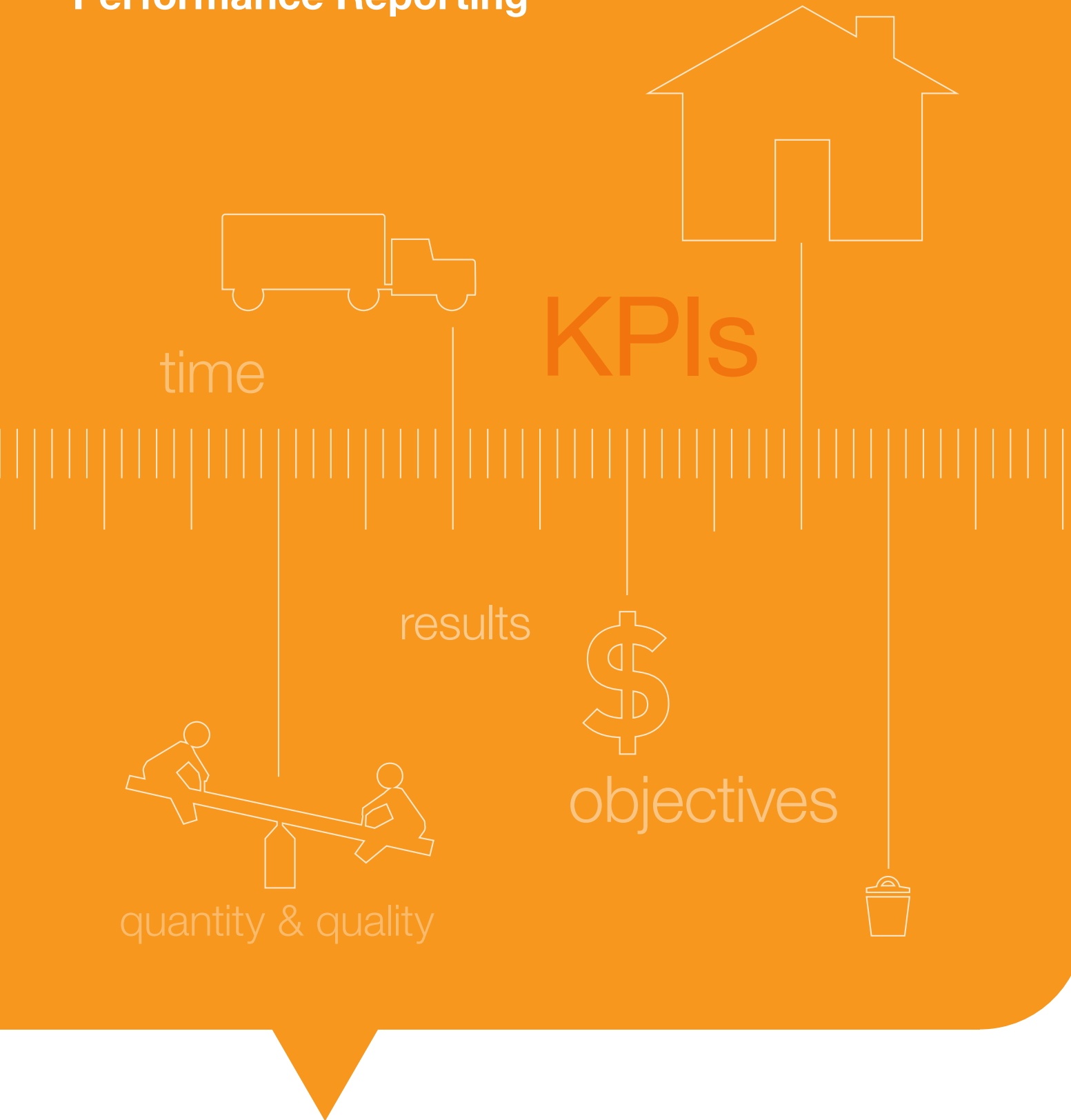
Victorian Auditor-General's Office

Auditing in the Public Interest

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Local Government Performance Reporting



Turning Principles into Practice



VICTORIA
Victorian
Auditor-General

Local Government
Performance
Reporting: Turning
Principles into Practice

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Foreword

Private sector entities normally know whether customers are satisfied with their goods and services—it's reflected in their profits. They also know whether they are creating value for shareholders—it's reflected in their share price.

Councils are not profit-seeking or wealth maximising entities. They provide essential municipal services and residents rely on them for ancillary services such as health and aged care.

How do councils know they are performing well; and more importantly, how can ratepayers and residents judge their performance?

The 'bottom line' for councils is different. As a result, constructing a comprehensive suite of relevant and appropriate performance measures is a complex exercise.

This guide is a contribution to this important link in the public accountability chain. It has leveraged information gathered in the recently completed audit of performance reporting in local government. The audit found room for considerable improvement, but recognised there is little authoritative guidance in this area.

When councils, ratepayers and residents ask the question 'How did we go this year?', I trust they will find this guide useful.

A handwritten signature in black ink, appearing to read "DDR Pearson". The signature is fluid and cursive.

DDR PEARSON
Auditor-General



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Introduction



Councils are required to provide performance information in their annual reports.

The legislated requirements must not be viewed as setting the maximum disclosure necessary—rather they should be taken to be the minimum standard.

The challenge for a council is to balance the need to provide useful information on its performance against the cost of capturing and reporting this information.

It is clear that too many performance measures are as much a problem as too few; too complex as much a problem as too simple; and too narrow as much a problem as too broad.

How to get the balance right is a key theme of this guide.

The guide is divided into three main sections. First, a discussion of performance reporting concepts—without understanding these, the rest of the guide will be of less use. Second, consideration of the practicalities in applying the concepts. Third, appendices that include checklists and tools that can be used to apply the principles and practices outlined in the guide to your council.

A template for a model performance statement is also included to promote consistency in presentation of performance data, which will aid comparison between councils.

The selective bibliography highlights some of the sources of data used to compile this guide. They are recommended reading for all interested in improving performance measurement in local government.

All high-performance organisations must be interested in developing and deploying effective performance measurement and performance management systems, since it is through such systems they remain high-performance organisations.

National Performance Review,
Best Practices in Performance Measurement, 1997

Key messages

A focus on outputs and outcomes

performance indicators should reflect whether service objectives have been met

Comprehensiveness

performance indicators should assess performance against all council objectives

Consistency and comparability

data should be calculated consistently over time and preferably, be comparable across councils

Context

data should be provided for prior period performance, including trends; and on the reasons for any significant variance from targets or expected results

Performance management

Performance management is the process of setting agreed performance goals and monitoring progress against these goals.

The performance information generated from this process can be used to prioritise and allocate resources, and to assist managers either to confirm or to change current policy or program directions.

For councils an important context for performance reporting is the central role it plays in external accountability: primarily to ratepayers and residents, but also to the state government and other external providers of funding and support.

It is the lens of external accountability that provides the focus for this guide. In this context, two key conceptual questions are posed:

- What should be measured?
- What qualities should performance measures have?

What to measure

Determining what to measure starts with determining what needs to be measured. The answer to this should be guided by consideration of two key attributes—that measures are **comprehensive** and **balanced**.

Comprehensive

Performance reporting accountability frameworks aim to demonstrate achievement against objectives. It is therefore logical that there will be a nexus between **objectives** and **performance indicators**.

To be comprehensive, measures should be developed and organised to align with strategic objectives. However, a pitfall in this approach is that it assumes careful consideration and expression of strategic objectives. The quality of the measures depends critically on how well objectives are expressed.

Better practice entities seek to align the goods and services they provide, with their objectives and intended outcomes. This **output/outcomes** framework provides a robust platform for developing comprehensive indicators and measures. It is used consistently across governments in Australia and overseas.

The provision of council services may not be explicitly stated as part of their objectives. Therefore it is always a good practice to check for comprehensiveness by aligning current performance indicators with services.



Balanced

Councils should produce a balanced suite of indicators. It is rare that a single indicator will capture all aspects of performance. Often good performance in one dimension is at the expense of another dimension—with scarce resources the inevitable trade-offs between time, cost and quality are a classic example.

The **output/outcomes** model lends itself readily to measures for time, cost, quantity and quality of service provision. Outcomes are harder to measure reliably, typically because they involve longer timeframes to become evident; and often the outcomes are achieved through contributions by a number of entities. This is not a reason to ignore outcomes, or not attempt to define measures for outcomes.

Many better practice organisations group their performance measures into:

- **output efficiency indicators**—the efficiency with which resources are transformed into goods and services. These will often be expressed as an index, ratio, unit, or some other form of comparative measure
- **output quality indicators**—the quality of goods and services, how well they are delivered to clients, and the extent to which clients are satisfied
- **outcome effectiveness indicators**—how well results compare to a program’s intended purpose or objectives.

Qualitative characteristics

Honing the range of all possible measures into a set of key measures requires considering whether each potential measure is **relevant** and can be supported by information providing **appropriate context** for users.

Relevant

Measures selected for accountability reporting should have a logical and consistent relationship to council objectives and services.

In Victoria the *Local Government Act 1989* (the LGA) sets out the objectives of councils (see Exhibit One) and the performance reporting framework.

The objectives in the LGA provide a sound basis from which to develop a comprehensive suite of relevant outcome effectiveness performance indicators; whereas the services councils provide are the basis for developing a suite of output indicators.

EXHIBIT ONE: OBJECTIVES FROM THE LOCAL GOVERNMENT ACT

- Promote the social, economic and environmental viability and sustainability of the municipal district
- Ensure that resources are used efficiently and effectively and services are provided in accordance with the Best Value Principles to best meet the needs of the local community
- Improve the overall quality of life of people in the local community
- Promote appropriate business and employment opportunities
- Ensure that services and facilities provided by the Council are accessible and equitable
- Ensure the equitable imposition of rates and charges
- Ensure transparency and accountability in Council decision making.

Appropriate context

Selecting a relevant indicator and reporting actual performance will not necessarily tell the full story.

Users require context to interpret results and form a conclusion. Key contextual data includes:

- a pre-determined target
- the trend in performance over time
- relative performance of similar councils.

Targets should preferably have some ‘stretch’ element, but not be unrealistic so as to de-motivate or create dysfunctional behaviour.

The reported results should also be accompanied by adequate notes that assist the user to draw meaningful conclusions. Explanation of the reasons for significant variances from targets should be included.

The context provided by trend and benchmark data loses meaning if indicators vary over time, or if the basis of calculation varies. Therefore indicators chosen should withstand the test of time.

It is also important that they are able to be reliably measured. Accuracy is important, but there can be some tolerance in precision. Often there is a trade-off required between timely data and 100 per cent accuracy; or between accuracy and cost. Balancing cost and accuracy is a matter for judgement, but it is important that users know when reported data has any caveats on its accuracy.

Audit insight into ‘relevance’

Key Strategic Activities

The Local Government Act requires councils include performance measures and targets in their annual budgets for ‘key strategic activities’ (KSAs).

Council interpretation of this requirement has been variable, leading to divergent approaches to the definition of KSAs and selection of associated performance measures.

Audit observed cases where there were literally dozens of KSAs—begging the question whether these could all be key and strategic. It was apparent in many cases that there had been a confusion of concepts between outcomes, outputs and activities (Exhibit Two illustrates these concepts).

Councils that implement a comprehensive set of outcome and output indicators will automatically put a boundary around what can be interpreted to be a KSA.

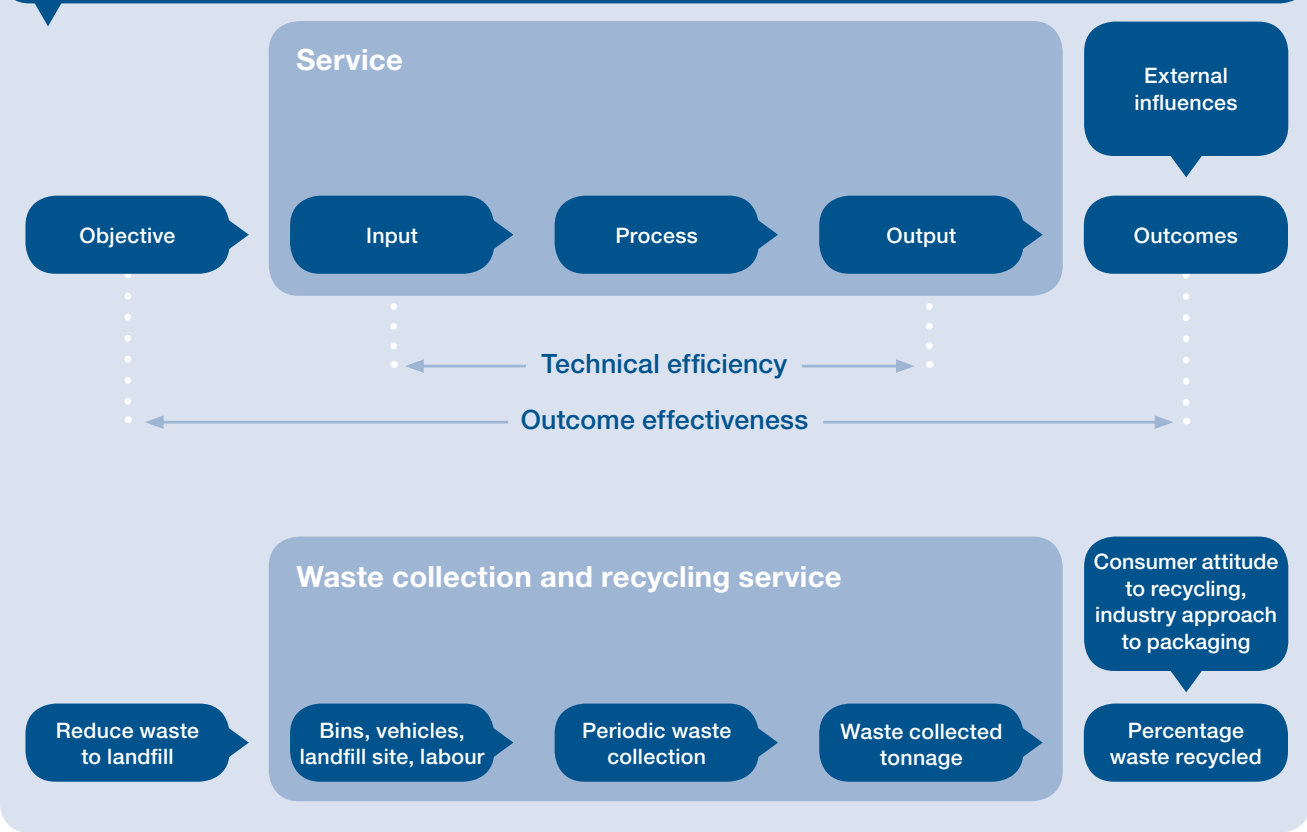
In the context of constructing the council budget, KSAs could be the **major new initiatives** over and above normal service delivery. These will require their own time, cost, quantity and quality indicators to allow councils to measure whether they have been successfully implemented.

Performance measures are useful when appropriate comparisons are developed—benchmarking is a way to develop appropriate comparisons.

By benchmarking a council can validate that its goals are still attainable.



EXHIBIT TWO: EXAMPLE SERVICE PROCESS MAP



Performance measurement provides the means of shifting the focus from the level of resources to the use of resources

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2008*

Key messages

A focus on leadership

councillors and senior management must set the agenda and stay involved

Accountability

clarity is required; responsibility for performance should not be confused with responsibility for capturing data and reporting on performance

Quality of data

information systems should be automated where cost-effective to do so, to maintain consistency

Integrity of data

quality assurance mechanisms are required to ensure accuracy

Measurement systems

Putting performance reporting concepts into practice requires a systematic approach. The design of the system requires consideration of:

- **organisation**—the roles, responsibilities and accountabilities for performance
- **information systems**—the repositories for the capture and accumulation of data; and the means of communicating results
- **control activities**—the checks and balances in place to assure data accuracy and quality.

Organisation

Leadership is critical in designing and deploying effective performance measurement systems. Clear, consistent, and visible involvement by councillors, senior executives and managers is a necessary part of achieving success.

In this regard the council's vision, mission, and strategic direction need to be conveyed to employees and external customers clearly, concisely, and repeatedly.

Councillors also need to be closely involved in setting strategic and service objectives, establishing targets and monitoring performance.

Accountability for results must be clearly assigned and well-understood. High-performance organisations clearly identify what it takes to determine success and make sure that all managers and employees understand what they are responsible for in achieving organisational goals.

One way that accountability can be achieved is through management 'sign-off' of performance data. These sign-offs can cascade down throughout the organisation to all line managers.

Compensation, rewards, and recognition should be linked to performance measurements. Such a linkage sends a clear and unambiguous message to the organisation about what is important.

But, performance measurement systems should be positive, not punitive. The most successful performance measurement systems are not 'gotcha' systems, but learning systems that help identify what works and what does not.

A few basic, well-aligned measures taken seriously are better than a number of complex measures.

National Performance Review,
Best Practices in Performance Measurement, 1997



Information systems

Data collection should be based on a set of agreed definitions. These definitions need to be universally understood by employees, managers, partners, suppliers, and even customers.

Data should not be collected simply because the data is available to be collected, or because having large amounts of data 'looks good'.

How data is captured and stored is also important. Ideally, internal data will be generated from the information systems that relate to particular services, and transferred automatically to the performance reporting system.

Manual intervention to extract data and re-keying of data should be avoided if possible to ensure data integrity. However, a cost-benefit decision is required where existing information systems do not have the necessary capability or reporting functionality.

Key features of better performing councils are a systematic approach, with regular consideration of performance reports by senior council officers, and where performance and trends are tracked over time.

Audit Scotland, Overview of local authority audits 2007

Control activities

Every council needs clear and cohesive performance measurement processes, understood by all levels of the organisation.

Uniform policies and procedures should be developed and communicated. They should include a clear calendar of events for what is expected from each organisational level and when.

Those involved in collecting, summarising, analysing or reporting performance data should be trained in the underlying concepts, and the information systems used to capture and report the data.

Ideally, there will be a separation of duties between those who are responsible for service delivery and those who compile and report performance data. This is particularly important where performance and remuneration regimes are closely linked.

If resource constraints do not permit such separation, an independent quality assurance process should be implemented. Having internal audit or an external party review the accuracy and reliability of performance data is one way to achieve this.

Where data is extracted from other information systems reconciliations should be implemented. If reconciliations are not possible then a 'reasonableness' review should be undertaken by personnel who understand that aspect of council performance and can relate the reported data to their own knowledge and expectations of results.



Appendices

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A Self-assessment



Introduction

The following checklists are provided for councils to assess their existing performance indicator framework and systems.

It is recommended they be completed individually in the first instance by councillors and senior management. It may also be a good idea to get a sample of ratepayers and residents to answer the questions in the Framework checklist (A1).

The results can then be compiled and analysed for consistency of views, and to determine what action, if any, is required.

Before starting, those completing the self-assessment, should familiarise themselves with the contents in Sections 1 and 2 of this guide—there is one questionnaire for each section.



A1. Framework checklist

1. Comprehensive and balanced	Comments
The council has clearly articulated strategic objectives that are consistent with the Local Government Act and desired long term outcomes.	<input type="checkbox"/> Yes <input type="checkbox"/> No
Council reports indicators that measure outcome effectiveness against its strategic objectives.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The council's outcome performance indicators have a logical relationship to its strategic objectives.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The council has clearly articulated service objectives that are consistent with its mandate and desired service outcomes.	<input type="checkbox"/> Yes <input type="checkbox"/> No
Council reports indicators that measure output efficiency, quality and customer satisfaction.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The council's output performance indicators have a logical relationship to its service objectives.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The council has clearly articulated key strategic activities that are consistent with its budget initiatives and desired medium term outcomes.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The council reports indicators that measure the efficiency, quality and effectiveness of its key strategic activities.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The council's key strategic activity performance indicators have a logical relationship to its key strategic activities.	<input type="checkbox"/> Yes <input type="checkbox"/> No
The suite of indicators reported by council as a whole, permit an assessment of council's performance in terms of its effectiveness and efficiency.	<input type="checkbox"/> Yes <input type="checkbox"/> No



2. Relevant and appropriate

Comments

For each indicator reported the following contextual data is provided:

<ul style="list-style-type: none"> • pre-determined targets or goals 	<input type="checkbox"/> Yes <input type="checkbox"/> No
<ul style="list-style-type: none"> • external benchmarks or internal baselines 	<input type="checkbox"/> Yes <input type="checkbox"/> No
<ul style="list-style-type: none"> • trends which show performance over time 	<input type="checkbox"/> Yes <input type="checkbox"/> No
<ul style="list-style-type: none"> • comparison of results with similar councils 	<input type="checkbox"/> Yes <input type="checkbox"/> No
<ul style="list-style-type: none"> • adequate explanation of reasons why performance differs significantly from target or benchmarks 	<input type="checkbox"/> Yes <input type="checkbox"/> No
<ul style="list-style-type: none"> • adequate explanation of how each indicator is constructed. 	<input type="checkbox"/> Yes <input type="checkbox"/> No



A2. System checklist

1. Organisation		Comments
Performance indicators and targets are approved by council.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<hr/> <hr/> <hr/> <hr/>
The council has consulted with ratepayers and residents in designing the key performance indicators it reports publicly.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<hr/> <hr/> <hr/> <hr/>
Senior management responsibility for the quality of performance data is clear e.g. through up to date job descriptions.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<hr/> <hr/> <hr/> <hr/>
2. Information systems		Comments
The assumptions and methodologies used in producing KPIs are developed by qualified, and/or experienced personnel and approved by council.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<hr/> <hr/> <hr/> <hr/>
Council has clearly communicated the level of data accuracy it is seeking to achieve and its perception of the impact of inaccurate data.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<hr/> <hr/> <hr/> <hr/>
Data definitions have been effectively communicated to and understood by all those involved in the collection of data and kept up to date.	<input type="checkbox"/> Yes <input type="checkbox"/> No	<hr/> <hr/> <hr/> <hr/>



3. Control activities

Comments

<p>There are up-to-date policies and procedures for KPI production.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>Qualifications and experience of key employees involved in KPI production and review are appropriate.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>Staff receive training and support for production and management of KPIs.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>There is adequate segregation of functions such as data analysis, monitoring of results and responsibility for achievement of each KPI.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>Managers are required to 'sign off' on the accuracy of their KPIs, and are held responsible if errors are discovered.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>Council reporting includes progress against KPIs and facilitates monitoring of data reliability and credibility.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>Controls over KPI production are independently reviewed periodically e.g. by internal audit.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>
<p>Reconciliation control counts are used to ensure all data input is processed or plausibility checks are carried out on data.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>.....</p> <p>.....</p>



B Model statements

objectives

KPIs

Introduction

Councils are well served when it comes to model financial statements and a model budget. There are, however, no model performance statements.

A set of performance statement templates has been provided to demonstrate how performance information could be presented in a council annual report.

The layout and format of the statements has been based on the better practice principles discussed in this guide.

Three templates have been prepared. The first is a statement of financial performance. This has been based on five key financial viability performance indicators. The second is a statement dealing with council outputs; and the third a statement for the key strategic activities included in the annual budget.

It is important that any performance statements be accompanied by appropriate explanatory notes. Examples of the types of disclosures that could be made in such notes are also provided.



Financial performance statement for year ended 30 June 20..... : financial sustainability

Financial performance	Key performance indicators	Sector	4 year	Prior year	This year's	This year's actual	Variance	Explanation
Liquidity	Underlying result ratio Current ratio							e.g. i
Self-financing	Operating cash flow ratio							
Indebtedness	Borrowing ratio							
Asset replacement	Capital spend ratio							

Explanatory notes (significant variances):

i. include here a succinct explanation

.....

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This statement should be read in conjunction with the accompanying notes



Non-financial performance statement for year ended 30 June 20..... : council services

Service category Service dimension	Key performance indicators	Sector Average	4 year average	Prior year actual	This year's target	This year's actual	Variance	Notes
Local roads and footpaths								
Output cost efficiency	Example: Maintenance cost per kilometre							e.g. i
Output quality	Example: Insurance claims arising from trip hazards							
Effectiveness	Example: Accidents attributed to road conditions							
Customer satisfaction	Example: Community satisfaction rating							
Health and human services								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								
Recreational facilities								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								
Public amenity/appearance								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								
Traffic management & parking								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								



Service category Service dimension	Key performance indicators				Prior year actual	This year's target	This year's actual	Variance Notes
Waste management								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								
Local law enforcement								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								
Economic development								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								
Town planning								
Output cost efficiency								
Output quality								
Effectiveness								
Customer satisfaction								

Explanatory notes (significant variances):

i. include here a succinct explanation

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This statement should be read in conjunction with the accompanying notes

Non-financial performance statement for year ended 30 June 20..... : key strategic activities for 20.....-20.....

Four year plan		Annual plan				
Objectives	Strategies	Key Strategic Activities	Measures	Targets	Achievement	Explanation
1 – from Council plan	1.1 – from council plan	1.1.1 – from annual budget	Cost – how much this activity will cost (direct costs e.g. staff, contractors, consultants, materials, travel, etc)	\$		e.g. i
			Time – duration of the activity and planned end date	elapsed time, staff hours		
			Quantity – what outputs will this activity produce and how many	#		
			Quality – how will we measure the quality of the activity and/or its outputs			
	1.2	1.2.1				

Explanatory notes (significant variances):

i. include here a succinct explanation

.....

.....

.....

.....

This statement should be read in conjunction with the accompanying notes



Notes to the performance statements

1. Basis of preparation

These performance statements are prepared in accordance with section 132 of the *Local Government Act 1989*.

The statements must include, as a minimum, the 'Key Strategic Activities' and performance targets and measures specified in the budget under section 127; and the actual results achieved for that financial year having regard to those performance targets and measures.

Where the Council has not substantially achieved the performance targets in relation to the Key Strategic Activities set out in the budget, the Council must provide a written explanation to the Minister of why it failed to achieve the performance targets.

Council has determined that any variance greater than 10 per cent below target represents a substantial underachievement. Accordingly, explanations are provided in these statements for any such cases.

2. Definition and description of key performance indicators

Financial indicators

Measure	Description	Source of data
Underlying result ratio – Adjusted net operating result / total underlying revenue	Underlying revenue doesn't take into account non-cash developer contributions and other one off (non-recurring) adjustments. A negative result indicates a deficit. Operating deficits cannot be sustained in the longer-term, and deficits by their nature shift the burden of today's costs to future ratepayers.	Financial statements
Current ratio – Current assets / current liabilities	This is a measure of council's ability to pay its existing liabilities in the next 12 months. A ratio greater than 1 indicates there are proportionately more cash and other liquid assets than short term liabilities.	Financial statements
Operating cash flow ratio – Net operating cash flows / underlying revenue	This is a measure of council's ability to fund the replacement of assets from cash generated by our operations: the higher the percentage, the more able we are to do so.	Financial statements
Borrowing ratio – Non-current liabilities / 'own sourced' revenue	This is a longer-term measure that compares non-current liabilities (which mainly comprises borrowings) to own-sourced revenue.	Financial statements
Investment gap ratio – Capital spend / depreciation	This is a measure of whether the council is spending on infrastructure at a rate faster than the infrastructure is depreciating. Ratios higher than 1:1 (for example, 2:1) indicate that we are.	Financial statements



Glossary

Effectiveness

The extent to which outputs make positive contributions to specified outcomes.

Effectiveness indicator

A metric used to assess the degree of success in achieving an outcome.

Efficiency

The extent to which inputs are minimised for a given level of outputs, or how outputs are maximised for a given level of inputs.

Efficiency indicator

A metric that relates outputs with inputs, expressed as a ratio of outputs to inputs (sometimes referred to as 'technical efficiency').

Input

The financial, human, physical or information resources applied to the production of outputs.

Objective

The purpose or goal to be achieved.

Outcome

The results, impacts or consequences of actions by councils. A service provider can influence an outcome but external factors can also apply.

Output

The goods and services produced by a council for others on behalf of its ratepayers and residents.

Performance indicator

The attribute or dimension of performance measured.

Performance measure (metric)

A quantitative or qualitative characterisation of performance.

Performance target

A quantified level or change in level expected by a specified date, against which actual achievement can be compared. A performance target may be a quantitative target such as a sustained percentage increase over a stipulated period or a qualitative target such as a satisfaction level.

Process

The methods, systems and activities undertaken to convert inputs to outputs.

Quality

The extent to which an output is suited to its purpose and conforms to specifications.

Unit cost

Average cost, expressed as the level of inputs per unit of output. This is an efficiency indicator.



Bibliography

The following references were particularly valuable sources for much of the information in this guide. They are recommended reading for those with responsibility for implementing a performance measurement system.

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Organisation for Economic Cooperation and Development, *Toward better measurement of government*, OECD Working Papers on Public Governance, No 1, OECD Publishing, 2007.

Steering Committee for the Review of Government Service Provision, *Report on Government Services 2008*, 13th edn. Productivity Commission, Melbourne, 2008. See, in particular, Chapter 1.



Notes

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