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Performance Reporting in Local Government

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Victorian Auditor-General's Office
Auditing in the Public Interest

The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on *Performance Reporting in Local Government* together with a best practice guide titled *Local Government Performance Reporting: Turning Principles into Practice*.

Yours faithfully



DDR PEARSON
Auditor-General

11 June 2008

Foreword

Local government collects over \$5.7 billion in revenue annually and manages assets valued at more than \$47 billion.

Accountability for the management of these assets and for the delivery of services is fundamental to good governance. The accountability chain includes providing relevant and appropriate performance information to ratepayers and residents.

This report examines performance reporting by councils. It concludes that much of the performance data reported is not useful, and the effort put into its production is therefore largely wasted. It also concludes that important data on the cost-efficiency and quality of council services, and on the achievement of outcomes is not being reported.

Councils clearly need to invest more resources in the development and reporting of performance data. Councillors and senior management need to ensure they get adequate training and appropriate advice on this critical issue.

All councils should critically assess their performance reporting in the light of the findings in this report to ensure they effectively discharge their accountability obligation to their communities.



DDR PEARSON
Auditor-General

11 June 2008

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1 Executive summary

1.1 Introduction

Performance reporting by councils changed in 2004–05 with the passage of the *Local Government (Democratic Reform) Act 2003*.

A new approach to annual performance reporting was introduced by the Act, based on the concept of ‘key strategic activities’ (KSAs), as set out in each council’s annual budget. The Act also introduced the requirement to prepare a four-year council plan, containing strategic objectives and indicators to measure achievements.

As it has been three years since these reforms were introduced, it is timely to review their impact on local government performance reporting.

1.2 Audit objective

The audit objective was to assess the effectiveness of councils’ performance reporting, with particular emphasis on the audited performance statements included in council annual reports.

In addressing this objective the audit considered whether the performance information was useful and whether key elements of the framework established in each council support performance reporting.

1.3 Key findings

Relevance

Most councils’ non-financial performance data is of limited relevance to ratepayers and residents, the principal users of that data.

Performance information is generally not being provided on the timeliness, cost, quantity or quality of council services, on achieved outcomes, or on achieving strategic objectives.

The performance indicators being reported are activity-based and generally only measure one metric—time. In many cases the nexus between the indicator and the activity is very indirect and of questionable relevance.

Appropriateness

Most councils are not providing enough appropriate information to users about the performance measures they have adopted. This means that users are not able to meaningfully assess councils' performance.

The lack of clarity around measures and targets; the paucity of explanation of variances; and the failure to include trend and benchmark data can indicate that councils have adopted a 'compliance-centric' approach to reporting performance information. They rarely go beyond the legislative imperative and, where there are no specific requirements, adopt a practice of minimalist disclosure.

Presentation

The performance measures reported can be reliably measured. However, this must be considered in the context that many performance measures are neither relevant nor appropriate.

One inference that can be made is that councils select indicators because they can be easily measured, not because they are the right things to measure.

Policies and standards

In contrast to financial reporting, there are no independent, authoritative standards for performance reporting. There is also no generally accepted conceptual framework that identifies essential characteristics of performance reporting.

This situation is mirrored at council level, where the development of appropriate policies is either very limited or non-existent.

Organisational capabilities

In most cases councillors and council staff are not equipped with the knowledge and skills required to fully understand and develop appropriate performance reports.

1.4 Overall conclusions

The performance statements prepared by councils generally fail key tests of usefulness. They contain information that is largely irrelevant and inappropriate to users needs. The failure to include critical performance information and explanations makes it difficult for ratepayers and residents to hold their elected representatives fully accountable.

Through their reporting approaches councils have taken a very narrow view of their performance reporting obligations—treating the minimum mandatory legal requirements as the maximum disclosure standard.

Councils have not established key elements of the frameworks necessary to support the development of useful performance information.

1.5 Recommendations

- All councils critically review the performance information in their annual reports to ensure it is:
 - relevant and appropriate
 - presented in a comprehensible form. **(Recommendation 3.1)**
- Regulations be issued establishing minimum standards for the form and content of performance statements. **(Recommendation 4.1)**
- All councils document and approve performance reporting policies and standards. **(Recommendation 4.2)**
- Councillors and council staff involved in performance reporting are given appropriate training on performance measurement and management. **(Recommendation 4.3)**

RESPONSE provided by the Secretary, Department of Planning and Community Development

My Department, through Local Government Victoria, will continue to work with the peak bodies to help councils improve their performance reporting and use of indicators.

I support the recommendation to establish minimum standards for the form and content of performance statements. Regulations are one way to do this, guidelines are another. Whether or not regulations are the best means of doing this will need to be subject to consultation with the sector.

2 Background

At a glance

Background

Under legislation councils are required to report annually on their performance. The main legislation governing councils, including performance reporting, is the *Local Government Act 1989* (the LG Act).

The annual report must include an audited performance statement setting out the performance measures and targets contained in the annual budget, the actual results achieved and an explanation of substantial variances.

The audit assessed the relevance, appropriateness and presentation of this performance information.

2.1 Performance reporting by local government

Under legislation councils are required to report annually on their performance. The main legislation governing councils, including performance reporting, is the *Local Government Act 1989* (the LG Act).

Under the LG Act councils are required to publish a four-year 'council plan' covering the term of the council. The council plan must incorporate a strategic resource plan and strategic indicators that can be used to measure the achievement of council objectives.

Councils must also prepare an annual financial budget that outlines performance measures and annual targets expressed as a set of 'key strategic activities'.

The terms 'key strategic activity' and 'performance measure' are not defined in the LG Act or in the supporting *Local Government (Finance and Reporting) Regulations 2004* (the regulations).

Within three months of the end of each financial year, councils must prepare an annual report, provide a copy of this report to the Minister for Local Government and make the report publicly available.

The annual report must contain:

- an acquittal of actual results against the annual financial budget in the form of 'standard' statements. The format of the standard statements is specified in the regulations and is independently audited.
- a 'performance' statement, which acquits actual results against the performance target for each key strategic activity. There is no format specified for the performance statement in the regulations, although performance statements must be independently audited.
- a report on operations that explains progressive performance against the strategic indicators identified in the four-year council plan. These explanations are not required to be audited.

Figure 2A summarises the performance reporting legal framework.

Figure 2A
Summary of mandated local government performance reporting

Source	Performance information	Output	What is reported
Council plan	<p>Prepared at least every four years and reassessed annually</p> <p>Outlines the strategic objectives of the council and includes :</p> <ul style="list-style-type: none"> • strategies for achieving the objectives over the coming four-year period • strategic indicators for monitoring the achievement of the objectives • a strategic resource plan outlining the resources required. 	<p>Annual Report</p> <p>Report of operations</p>	<p>The report of operations must contain information that gives an accurate description of the activities and operations of the council during the financial year. It should contain a statement which reviews the performance of the council against the Council Plan including outcomes in relation to the strategic indicators.</p>
Annual budget	<p>Budgeted standard statements comprising an income statement, balance sheet, cash flow statement and statement of capital works.</p> <p>The budget must also include:</p> <ul style="list-style-type: none"> • funding activities and initiatives for the current year • a link of these activities and initiatives to the strategic objectives in the council plan • the key strategic activities for the year, outlining the performance targets and measures for each. 	<p>Annual Report</p> <p>Standard statements</p> <p>Performance statements</p>	<p>Actual results achieved against the annual budget, and explanation of significant variances.</p> <p>Actual results achieved against the performance targets and explanation where council has failed to substantially achieve a performance target.</p>

Source: Victorian Auditor-General's Office.

2.2 Audit objective

The objective of the audit was to assess whether councils' publicly reported performance information in their annual reports is:

- useful, and
- underpinned by a comprehensive and cohesive reporting framework.

To measure usefulness the audit assessed whether publicly reported performance information was relevant, appropriate and fairly presented.

When reviewing the reporting framework the audit assessed the adequacy of policies, guidelines, and training.

2.3 Audit scope

The audit involved a survey of all 79 local governments to review current reporting practice, together with a detailed examination of ten councils; two selected from each of the inner metro, outer metro, regional cities, large shire and small shire local government categories.

The audit focused on the performance statements produced annually under section 132 of the LG Act. In reviewing these performance statements, attention was also given to any other publicly reported performance information.

The review of the performance statements included:

- a desk-top review of all council performance statements for the last three years
- detailed reviews of 10 councils.

The audit did not extend to performance information produced solely for internal management reporting.

The total cost of this audit, including the preparation and printing of this report, was \$130 000.

3 Usefulness of performance reporting

At a glance

Background

The usefulness of performance reporting by councils was assessed against the following :

- **relevance:** do performance indicators relate to the needs of users?
- **appropriateness:** do performance indicators provide sufficiently meaningful information so that users are able to adequately assess actual performance?
- **presentation:** are performance results and achievements unambiguous?

Key findings

Most councils non-financial performance data is of limited relevance to ratepayers and residents, the principal users of that data.

Most councils are not providing enough appropriate information to users about the performance measures they have adopted. This means that users are not able to meaningfully assess council performance.

The performance measures reported can be reliably measured. However, this must be considered in the context that many performance measures are neither relevant nor appropriate.

Key recommendations

- All councils critically review the performance information in their annual reports to ensure it is:
 - relevant and appropriate
 - presented in a comprehensible form. (**Recommendation 3.1**)

3.1 Introduction

The usefulness of council performance reporting is determined by assessing its relevance, appropriateness and presentation in council annual reports. The focus of this audit is on the information in the performance statements included in the annual report.

How is performance measured?

Non-financial performance is measured using 'performance indicators'. These are measures that allow users to assess the extent of progress toward, and achievement of, organisational objectives. Indicators may be qualitative or quantitative, but to be useful they must be capable of reliable measurement.

Performance indicators that relate to all aspects of a council's operations can be developed, from its inputs, such as its staff resources; through its activities and business processes, such as civic planning; to its outputs, the goods and services it provides. They can also be developed to measure achievement against intended outcomes, such as improved public safety or a healthier environment.

Performance indicators can measure different attributes, namely, time, cost, quality or quantity. The table below illustrates the inter-relationships between these two concepts using council grants as an example.

Example of a quantitative performance indicator framework—grants

Operations				
Attributes	Input	Process	Output	Outcome
Quality	Staff turnover in grants unit	Rework required after quality review %	Compliance with grant guidelines %	Recovery rate for grants misused
Quantity	FTE grants staff	Number of grant applications processed	Number of grant applications approved	Percentage and dollar value of grants unused at year end
Time	Backlog of applications %	Elapsed days to review a grant application and make a decision	Percentage of grants provided within agreed timeframe	Percentage of grants requiring extension to approved timeframe
Cost	Salaries of staff involved in grant processing	Average cost per grant processed	Actual grants paid against budget	Cost of further/additional grants required

Source: Victorian Auditor-Generals Office

3.2 Relevance

The performance indicators that councils use will be relevant if they relate to the needs of users of that information.

The ratepayers and residents of a municipality are the primary users of the annual report and the performance information contained therein. Performance indicators of most interest to ratepayers and constituents are:

- **output and outcome-based** providing information on the time, cost, quality and quantity of services provided, and the extent of achievement of objectives and goals, rather than;
- **input or process-based** information on the resources used in the council and its internal operating activities.

The performance information in the annual report is also closely linked legislatively to the council plan and the annual budget. It is expected, therefore, that the performance measures that councils use are:

- **comprehensive** providing information about the achievement of all strategic objectives of the council, as set out in the council plan
- **logical and consistent** demonstrating a clear nexus between the measure used and the relevant key strategic activities.

3.2.1 Type of indicators used

The desk-top audit review of all council performance statements identified a high incidence of activity-based measures, as opposed to output-based or outcome measures. The performance statements of seven of the councils reviewed in-depth had no performance measures relating to council outputs or outcomes.

In many cases, the key strategic activities (KSA's) included in the budget, and the measures used have been expressed as one and the same thing.

Common examples of this included activities/measures described as:

- completion of a capital works program
- development of a plan or strategy
- 'lobbying' or 'advocacy'
- preparation of a report
- implementation of an initiative.

In these cases the measure and/or target, variously described, was often simply the completion of the activity.

The weakness in this approach is that the measure provides no indication of the impact of the activity. The nexus between the activity and its relevant objective can therefore only be inferred, and its effectiveness cannot be determined. It is therefore not possible to determine the extent of progress toward, or achievement of, the council objective to which it relates from this measure.

Figure 3A provides an example of a performance statement that uses activity-based measures in this way.

Figure 3A
Example of activity-based performance measures

Key Strategic Activity	Timeframe	Performance Measure
That council actively supports and lobbies for the continuance of <i>Roads to Recovery</i> funding.	Ongoing	a. Obtain funding b. Engage with the Municipal Association of Victoria c. Participate in the Strategic Grain Roads Lobby Group
Continued support for the regional development board and representation of industry in regional and state forums	Ongoing	Attend regional development group AGM and business forum
That council directly lobbies federal members and senators and annually visits Canberra to present first-hand community needs and aspirations	30 June	Meetings attended
Continually reviews governance processes to achieve best practice	Ongoing	Hold one briefing session yearly to discuss governance processes and review industry best practise
To strongly support and advocate for wind power as an alternative energy source	Ongoing	Support local government and industry to establish wind power in Victoria

Note: In this case the performance measures are simply more specific expressions of the key strategic activity. While the measures elaborate on what will be done they do not provide information on what effect the activity will have, or how the effect (if any) could be measured.

Source: Victorian Auditor-General's Office.

Range of measures and targets used

Compounding the lack of output and outcomes based reporting observed was the high incidence of time-based targets, with little attention paid to cost, quantity or quality dimensions of performance.

The target or actual cost of the KSA was rarely reported. Relevant quantities associated with an activity, for example the number of reports, number of meetings attended, was occasionally included; but was mostly not referred to in the target. The overwhelming majority of targets or measures related to when an activity was planned to be completed.

Without exception, there were no measures identified that provided information directly on the quality of the activity.

3.2.2 Comprehensiveness of indicators used

A further test of relevance is the extent to which the measures used for each KSA relate to the strategic objectives as set out in the council plan.

The approach that councils generally adopted to demonstrate links between 'key strategic activities' and strategic objectives, was to group the KSAs by objective. This was the case in nine of the ten councils reviewed in-depth, where each strategic objective had at least one KSA identified. From this perspective there was clear alignment and comprehensive coverage.

However, alignment between the strategic activities and indicators in the council plan on the one hand, and the KSAs in the performance statement on the other, was not as obvious.

The current legislative framework requires councils to set strategies and identify strategic indicators in the council plan that align to strategic objectives.

By contrast, the KSAs set out in the budget are required only to relate to the annual activities and initiatives adopted by council. The annual activities and initiatives do not have to relate to the strategic activities or strategic indicators in the council plan.

Accordingly, there may be no nexus between the annual KSAs in the performance statement and the 'strategic activities' in the four-year council plan. In seven of the councils that were reviewed in-depth this was found to be the case. The KSAs and accompanying measures did not address all council strategies and did not correlate closely with the strategic indicators.

3.2.3 Logic and consistency of indicators used

To be relevant the measures used must not only link to the objectives of the council, but must also relate logically to the KSA.

In many performance statements reviewed the indicators developed to measure the performance did not clearly link to the activity being measured.

The primary example of this relates to the most commonly used performance measure — the community satisfaction survey (CSS) results. These were included in 46 of the 79 councils' performance statements.

The Department of Planning and Community Development issues the CSS and the individual results are reported to each council and available publicly at an aggregate level on the department's website. The survey provides an overall satisfaction rating out of 100, as well as more detailed ratings, including ratings for each council's key service areas, such as waste management.

Community satisfaction results are important performance metrics for councils. However, they can only provide general measures that do not correlate closely with any particular council activity or necessarily align with any one objective. They will also be affected by factors outside of a council’s direct control and influence that may not relate to the quality of service or effectiveness of the council.

Notwithstanding this, there was a high incidence where the CSS results were used as the sole performance measure. In these cases in particular, the CSS results often did not align with any specific KSA, but were collectively grouped against all or a number of key strategic activities.

Using a general measure to evaluate a specific activity or set of activities, particularly one based on public perception, is problematic. The lack of specificity in performance data limits its usefulness as a tool for continuous improvement. For example, it is not possible to determine the extent to which any or all of a council’s activities contributed to a change in customer satisfaction, and therefore, which activities to continue and which to discard or alter. There is also no data that helps to determine whether any improvement in satisfaction was worth any additional cost incurred. Figure 3B illustrates this.

Figure 3B
Example: lack of direct nexus between activity and measure

Key strategic activity	Indicator	Audit comment
Undertake research for an ‘ageing well’ precinct.	Improve customer satisfaction in health and human services from 69 to 70.	The nexus between the research and its ability to affect the CSS for health and human services is hard to establish.
Maintain a corporate culture that fosters opportunities for knowledge sharing and involvement of staff, and which recognises and encourages excellent performance.	Community satisfaction survey (CSS) rating for council advocacy and community representation on key local issues CSS for council interaction and responsiveness in dealing with the public	The activity is more akin to an objective. It also relates to staff, rather than to customers. How this objective and any activities associated with it, link to the CSS for community representation and advocacy is unclear.

Source: Victorian Auditor-General’s Office.

3.2.4 Conclusion on relevance

Most councils non-financial performance data is of limited relevance to ratepayers and residents, the principal users of that data.

Performance information is generally not being provided on the timelines, cost, quantity or quality of council services, on achieved outcomes, or on achieving strategic objectives.

The performance indicators being reported are activity-based and generally only measure one metric—time. In many cases the nexus between the indicator and the activity is indirect and of questionable relevance.

3.3 Appropriateness

Performance reporting needs to provide sufficiently meaningful information so that users are able to adequately assess actual performance. Such information includes:

- a clear definition of the measure and a description of how it is calculated
- a clear articulation of the expected result or target and how it was determined
- the variance between the actual result and the target, together with sufficient explanation of the underlying reasons for the variance, where significant
- trend data to show how performance has changed over time, and
- external benchmark data to enable comparative assessment of performance.

Definition of measures and basis of calculation

The almost universal use of activity-based measures means that most measures reported are simply descriptions of an activity. These narrative statements provide the user with a general idea of the nature of the activity.

However, given they are narrative it is difficult to clearly express the measure in simple terms, using a few words. Many councils resorted to short-hand descriptors in their performance statements that lack meaning and provide little insight into the measure. Examples of both issues arising in a number of statements are set out in Figure 3C.

Figure 3C
Example: poorly articulated measures

Key strategic activity	Measure/indicator	Audit comment
Develop policy outcomes recommended by the access and inclusion strategy.	Policy outcomes developed	Not clear what 'developed' means and how is it measured—are these policy statements approved by council?
Infrastructure and transport	Successfully complete the capital works program	How is success measured— is it the number of capital works projects completed in the year? Does this include previous year projects carried forward or just the new program? Is actual cost against budget a part of the measure of success?
Continue working with state government and other groups.	Attend briefing sessions and make submissions as required.	What briefing sessions, who should attend?
Provide responsive service delivery.	Proactive inspections and maintenance programs.	How is 'proactive' defined— does this include programmed maintenance? What is being inspected and maintained—all assets or just road assets?

Source: Victorian Auditor-General's Office.

Expected results or targets

The *Local Government Act 1989* (the LG Act) requires that councils establish targets for each measure. There is no requirement that these targets be capable of measurement, or that they are limited to a single quantifiable amount or duration.

With the exception of the community satisfaction scores, the most common targets used for a KSA were time-based—duration or expected end date. Examples of such targets include:

- **'develop by 2007'**: unclear whether this meant 1 January 2007 or 31 December 2007, or in fact relates to the financial year 2006–07
- **'30 June 2007'**: the end of the financial year was a popular target adopted as a default in many cases, rather than setting milestone targets for specific activities throughout the year
- **'ongoing'**: this was used most for recurring activities, which begs the question whether these were actually KSAs associated with initiatives in that year's budget.

Where quantity or cost targets were used, no information was provided on how these targets had been established—for example, whether it was based on the previous years actual performance, the expected level of current year activity, or an externally referenced benchmark. Accordingly, there is no basis for assessing whether the target set was realistic, easily achievable or a 'stretch' target. Without this context, assessment of actual performance against the target is meaningless.

In four of the councils reviewed, performance targets included quantity measures, however the quantity to be achieved was not clearly defined. For example:

- **'Reduce unemployment levels within the municipality'**: the current unemployment level and the target level was not quantified
- **'Increased number of general practitioners in the municipality'**: no data on the current number of general practitioners was provided nor on the target number.

Variances and explanations

As required by the LG Act all councils provided data on actual performance. The LG Act also requires councils to provide an explanation if they have failed to 'substantially achieve' a performance target. However, there is no legislative guidance on how to interpret 'substantial', similarly there is no guidance on what form of explanation is required.

No councils provided a clear articulation of how they determined whether a variance between a target and an actual result meant that the target was not 'substantially achieved' in their performance statements.

Some councils did not provide explanations for any variances and many simply noted that the target was 'not achieved'. Some elaborated on why the target was not achieved but many explanations lacked specific detail. Figure 3D provides an example that typifies all these issues in an extract from one council's performance statement.

Figure 3D
Example: missing and limited explanations of variances

Key strategic activities	Actual 2006–07	Target	Variance explanation	Audit comment
Implement community building plans:				An unfavourable variance of three from a target of seven could be considered to be substantial and warrant explanation
• develop plans	4	7	-	
• review plans	7	4	-	
Council planning scheme review adopted.	Scheme exhibited	100%	Ministerial consent received and Planning Panels Victoria appointed to review the local policies prior to exhibition.	It is not clear what the quantitative target of 100% refers to, particularly in context of the result which is expressed in qualitative terms.
Capital works program completed.	50%	90%	The capital works program was not completed for the year and outstanding works are carried over until the new year.	The 'explanation' does not explain why the program was not completed.

Source: Victorian Auditor-General's Office.

Trend and benchmark data

Councils' use of trend and external benchmark data in performance reporting was virtually non-existent.

The legal framework for performance reporting focuses on the KSAs included in council budgets. As these change over time, and between years, many of the measures that councils use contain no meaningful concept of trend data. The same is true for external benchmark data.

Comparative analysis of the performance statement of each council identified that 39 councils changed their performance measures between 2003–04 and 2004–05 and 10 of these changed indicators again in 2005–06. In total 16 councils changed indicators each year from 2004–05 to 2005–06.

The use of trend data was limited to a small number of councils where previous year data was provided as a comparative. This generally only occurred for CSS data, which is reported consistently over time.

3.3.2 Conclusion on appropriateness

Most councils are not providing enough appropriate information to users about the performance measures they have adopted. This means that users are not able to meaningfully assess council performance.

The lack of clarity around measures and targets, the paucity of explanation of variances and the failure to include trend and benchmark data can indicate councils have adopted a 'compliance-centric' approach to reporting performance information. They rarely go beyond the legislative imperative and, if there are no specific requirements, adopt a practice of minimalist disclosure.

3.4 Presentation

Performance information should be presented in such a way that the results are unambiguous and actual performance cannot be misconstrued. In this regard each performance measure should be:

- able to be reliably quantified
- calculated consistently, when used for more than one period
- based on accurate source data.

The style of presentation should also be comprehensible. In this regard the performance statements should:

- include an executive summary, where there is a lot of supporting detail
- be clearly laid out and labelled
- have adequate explanatory notes to assist the user understand context, key assumptions and the source and reliability of data used
- use charts and graphs where appropriate.

Reliability and accuracy of actual results

Generally, where measures and targets were appropriately expressed they were also capable of reliable measurement.

This result was not unexpected as the audit opinion expressed on council performance statements considers their accuracy and the extent of compliance with legislation.

No qualified audit opinions were issued on performance statements in the 2006–07 year.

Form and style of presentation

The 'readability' of performance statements was generally poor as presentation styles adopted were rudimentary and unsophisticated.

All councils used tabular presentation of performance measures, but few supplemented this with detailed supporting notes. There was a consistent lack of explanation about the purpose of the statements, why they were prepared, and their relationship to the annual budget process.

On average, performance statements were between three and four pages long, and half of the councils reports were two pages or less. Councils with more extensive reporting did not provide an 'executive summary' or use graphical presentation to better represent performance.

The longest performance statement identified in our sample totalled 48 pages and contained all 198 strategic activities of the council. The ability of a reader to readily assimilate this data and form a complete and clear picture of a council's performance is limited in such circumstances.

The use of exception-based reporting to highlight substantial variances was also limited. Some councils provided a separate summary of material variances, but many provided commentary against each result, regardless of whether it was a substantial variance. Failing to highlight exceptions makes it difficult to clearly discern overall performance.

3.4.2 Conclusion on presentation

The performance measures reported can be reliably measured. However, this must be considered in the context that many performance measures are neither relevant nor appropriate.

One inference that can be made is that councils select indicators because they can be easily measured, not because they are the right things to measure.

3.5 Overall conclusion on usefulness

The councils' performance statements generally fail key tests of usefulness. They contain information that is largely irrelevant and inappropriate for users' needs. They fail to include critical performance information and the explanations that would allow ratepayers and residents to hold their elected representatives accountable.

Councils have exhibited a very narrow view of their performance reporting obligations, treating the minimum mandatory legal requirements as a maximum disclosure standard.

Recommendation

3.1 All councils critically review the performance information included in their annual reports to ensure it is:

- relevant and appropriate
- presented in a comprehensible form.

4 Performance reporting framework

At a glance

Background

Public reporting by councils must be timely and reliable. To achieve this councils must establish a reporting framework to underpin the production of performance information.

The key elements of a robust performance reporting framework examined were performance reporting policies and organisational capabilities.

Key findings

In contrast to financial reporting, there are no independent, authoritative standards for performance reporting. There is also no generally accepted conceptual framework that identifies essential characteristics of performance reporting.

In most cases councillors and council staff are not equipped with the knowledge and skills required to fully understand and develop appropriate performance reports.

Key recommendations

- Regulations are issued establishing minimum standards for the form and content of performance statements. **(Recommendation 4.1)**
- All councils document and approve performance reporting policies and standards. **(Recommendation 4.2)**
- Councillors, and council staff involved in performance reporting are given appropriate training on performance measurement and management. **(Recommendation 4.3)**

4.1 Introduction

Public reporting by councils must be timely and reliable, more so when it also involves obtaining independent audit certification.

To achieve this councils must establish a reporting framework to underpin the production of the information they include in their annual reports, including the performance statements.

The key elements of the framework examined in this audit were:

- **performance reporting policies** : the reporting and disclosure standards adopted; the basis of measurement and other key assumptions used such as the degree of accuracy required, and the definition of substantial variances
- **organisational capabilities**: the technical knowledge and training of staff, and the allocation of responsibility for developing and reporting performance information.

4.2 Policies and standards

Section 132(4) of the *Local Government Act 1989* (the LG Act) provides for regulations to be issued that set out the form and content of the performance statements. No regulations have been issued under this provision, so it is incumbent on each council to establish their own policies in this respect.

Unlike financial statements, there are also no legislatively backed 'performance reporting standards' similar to accounting standards. In addition, the audit did not identify any industry standards or models of better practice relevant to the local government context in Victoria. The onus, therefore, falls to each council to develop their own performance reporting standards.

The audit did not identify any documented performance reporting standards or policies, approved or not, in any council. The consequence of this, as reported in part 3, is that councils do not include a summary of policies with their performance statements. This makes interpretation and understanding of results for a council difficult.

At a broader level, the absence of a sector-wide standardised approach to performance reporting means that comparing performance between councils is likely to produce unreliable results.

Conclusion on policies and standards

In contrast to financial reporting, there are no independent, authoritative standards for performance reporting. There is also no generally accepted conceptual framework that identifies essential characteristics of performance reporting.

This situation is reflected at council level, where the development of appropriate policies is either very limited or non-existent.

4.3 Organisational capabilities

Councils are governed by community elected representatives. The skills and experience of these councillors varies across councils. In some of the councils reviewed the elected councillors had strong corporate experience in performance management and reporting. However, this was not always the case, and in many councils greater reliance is placed on council staff to drive the process of setting strategic objectives and developing performance indicators.

In nine of the councils reviewed, none of the council staff or councillors had received training on developing strategic objectives and setting measurable performance targets and indicators.

Conclusion on capabilities

In most cases councillors and council staff are not equipped with the knowledge and skills required to fully understand and develop appropriate performance reports.

4.4 Overall conclusion

Councils have not established key elements of the frameworks necessary to support the development of performance information.

Given the absence of independent, authoritative standards for performance reporting it is important that:

- the sector develops guidelines or models to assist with the development of performance measures and to demonstrate best practice
- councils develop policies outlining the conceptual basis for preparing performance information.

Recommendations

- 4.1 Regulations are issued establishing minimum standards for the form and content of performance statements.
- 4.2 All councils document and approve performance reporting policies and standards
- 4.3 Councillors, and council staff involved in performance reporting are given appropriate training on performance measurement and management.

Auditor-General's reports

Reports tabled during 2007-08

Report title	Date tabled
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Auditor General's Report on the Annual Financial Report of the State of Victoria, 2006-07 (2007-08:9)	November 2007
Funding and Delivery of Two Freeway Upgrade Projects (2007-08:10)	December 2007
Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates (2007-08:11)	December 2007
Local Government: Results of the 2006-07 Audits (2007-08:12)	February 2008
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