



Discussion paper

Central  
government: Cost-  
effectiveness and  
improving annual  
reports

Office of the Auditor-General  
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500  
Facsimile: (04) 917 1549

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
[www.oag.govt.nz](http://www.oag.govt.nz)

# Central government: Cost-effectiveness and improving annual reports

Presented to the House of  
Representatives under section 21 of  
the Public Audit Act 2001.

June 2011

ISBN 978-0-478-38302-7 (print)  
ISBN 978-0-478-38303-4 (online)



# Contents

Auditor-General's overview	5
Our recommendations	7
Part 1 – Introduction	9
Scope and structure of this discussion paper	10
Part 2 – Legislative requirements and the use of annual reports	11
Who uses performance reports?	11
What does the legislation require?	11
What do we expect to learn from annual reports?	15
What can we learn from the current annual reports?	16
Part 3 – Analysing the cost of delivering services	17
The first part of the performance story	17
Examples of output reporting	21
Conclusions on analysing the cost of service delivery	27
Part 4 – Measuring and reporting impacts, outcomes, and cost-effectiveness	29
The second part of the performance story	29
Examples of measuring impacts and outcomes	31
Examples of reporting cost-effectiveness	35
Conclusions on measuring and reporting impacts, outcomes, and cost-effectiveness	38
Part 5 – Analysing trends in performance	41
Reasons for measuring over a longer time	41
Examples of measuring over a longer time	43
Example of analysing performance data	45
Conclusions on analysing trends in performance	48
Glossary	51
Figures	
1 – Cycle of public entity accountability documents for public entities	12
2 – Outcome-based performance management model	14
3 – Outcomes model, indicating areas of output reporting	18
4 – Public entities' usual approach to reporting against outputs	20
5 – New Zealand Fire Service Commission – reporting of revenue and expenditure for output classes	22/23
6 – New Zealand Fire Service Commission – reporting of performance measures for significant outputs	24
7 – New Zealand Customs Service – reporting of output classes	25/26
8 – Outcomes model, indicating areas of impact and outcomes and cost-effectiveness measures	29
9 – Department of Corrections – results of random drug testing in prisons	32
10 – Department of Corrections – effectiveness of drug and alcohol rehabilitation services	33
11 – Accident Compensation Corporation – effectiveness of rehabilitation programmes	34
12 – New Zealand Customs Service – processing cost measures	36
13 – Sport and Recreation New Zealand – cost-effectiveness of investing in Olympic sports	37
14 – Ministry of Transport – example of long-term outcome measurement (road crash casualties and the vehicle fleet)	43
15 – New Zealand Fire Service – example of long-term trend information	44
16 – New Zealand Customs Service – trends in time taken to process passengers	45

17 – New Zealand Customs Service – presenting output class expenditure	46
18 – New Zealand Customs Service – output class expenditure for prosecutions and civil proceedings over five years	47
19 – New Zealand Customs Service – spending and outputs for prosecutions and civil proceedings over five years	48

## Auditor-General's overview

This discussion paper is based on an analysis of the publicly reported performance information of six government departments and Crown entities during the last six years (2005 to 2010). We have written this discussion paper to encourage ongoing improvements in performance reporting and in using information about performance to support good decision-making and management.

Our wider environment is one of fiscal constraint, in which public entities need to find savings to help return the Government's operating balance to surplus as soon as possible. Entities need good information to support their decision-making and minimise any adverse effects of spending changes on service delivery to the public.

Using good performance information underpins many of the initiatives under way to raise State sector performance. It is important that service performance information is useful and used, and there are significant benefits for entities, Ministers, and Parliament in making this a reality. Likewise, taking a longer-term view of the entity's performance, and monitoring changes in demand and service delivery over time, are central to ensuring that service delivery will continue to be "fit for purpose".

An entity inspires confidence and trust when it clearly demonstrates that it knows its own business, is consistently performing well, delivers value for money, and is transparent about any changes it needs to make and what it can do better.

For public entities to demonstrate these features, I would like to see improvements in four aspects of annual reporting:

- measuring and reporting on effectiveness and cost-effectiveness;
- more analysis and evaluation of public entities' own performance;
- more analysis of longer-term trends; and
- better reporting of results (the outputs and the cost of service delivery).

I hope that all public entities will use this discussion paper in keeping a constant eye on what they are trying to achieve in measuring and reporting performance – which is the ability to improve that performance and the outcomes it achieves for the public.



Lyn Provost  
Controller and Auditor-General

16 June 2011





## Our recommendations

In our view:

- It is both possible and, in the current economic environment, imperative to measure impacts and outcomes (what contributions have been made as a result of activities carried out) and to assess cost-effectiveness (that costs of services are justified by the impacts and outcomes produced).
- The story of a public entity's performance and the cost-effectiveness of its services would be clearer if improvements were made to impact and outcome measurement; if public entities provided more evaluation and explanation; if they included longer-term trend analysis; and if they better reported their results (the outputs and the cost of service delivery).
- The annual report is a public entity's opportunity to provide useful achievement information to the wider public. To that end, the annual report should be seen as a tool for communicating performance and cost-effectiveness results and for providing a well-rounded and insightful story of performance and revenue and expenditure results.

Given our views, we have made five recommendations for public entities to improve the information in their annual reports.

### **Analysing the cost of delivering services**

We recommend that public entities:

1. structure the service performance and cost of service information to show the efficiency and economy aspects of performance; and
2. provide better analysis and evaluation of their achievements so that readers have a full picture of the entity's performance.

### **Measuring and reporting impacts, outcomes, and cost-effectiveness**

We recommend that public entities:

3. report on the impacts and outcomes that result from delivering their outputs; and
4. analyse and evaluate their service performance, cost of service, and impact and outcome results to assess and report on cost-effectiveness.

## Analysing trends in performance

We recommend that public entities:

5. identify services and results (costs, outputs, impacts, and outcomes) that would benefit from longer-term (5-10 year) trend analysis and report that analysis, supported with commentary, in their annual reports.

# Introduction

- 1.1 This paper is aimed at government departments and Crown entities that prepare annual reports of their performance for external publication under the Public Finance Act 1989 (PFA) or the Crown Entities Act 2004 (CEA). However, the principles we discuss apply to all public entities.
- 1.2 By discussing current practices and using illustrative examples, we hope that this paper will help public entities to renew their focus on improving their analysis of their performance, as well as its reporting. This discussion paper is not a definitive or prescriptive guide to what is “best”.

## **Our review of six years of publicly reported performance information**

- 1.3 In 2010, we commissioned a study to analyse the publicly reported performance information of a number of public entities during the last six years (2005 to 2010). We asked selected reviewers<sup>1</sup> with experience in public sector performance management and reporting to carry out the analysis on our behalf.
- 1.4 We asked the reviewers to use only publicly available documentation (primarily the annual reports) to determine what they could understand about an entity’s performance during the six-year period. We asked the reviewers:
- What trends does the externally reported performance information reveal about the full range of the public entity’s performance (including outcomes and impacts, outputs, and financial results)?
  - What inferences can you make about evaluative assessments such as cost-effectiveness and long-term service sustainability?
  - What are the relative strengths and weaknesses in the reported information?
  - What questions or matters for potential evaluation or review are raised by the reported information?
  - To what extent does the public entity appear to have identified and responded to these questions and evaluation matters?
  - How could the information be used – and what were you prevented from doing – given what the public entity chose to report?
- 1.5 This paper summarises the findings of the reviewers and our analysis of their findings.

<sup>1</sup> Bakker Maniparathy Claridge was the primary contributor to this report. The other external contributors were PricewaterhouseCoopers and Parker Duignan.

## Scope and structure of this discussion paper

- 1.6 The paper focuses on findings that are common to a number of public entities. We have included those recommendations that, if effectively addressed, would lead to significant improvements in reporting public information on an entity's performance. Therefore, this paper does not cover every aspect of performance reporting.
- 1.7 In Part 2, we discuss the purpose of annual performance reporting, its readers and uses, legislative requirements, as well as the value of such reporting and which reporting practices are common.
- 1.8 In Part 3, we discuss the foundations of strong performance reporting – measuring, analysing, and reporting economy and efficiency measures of services.
- 1.9 Part 4 discusses the second important component of performance analysis – measuring and analysing impacts, outcomes, and cost-effectiveness.
- 1.10 In Part 5, we discuss the need to analyse trends over longer periods to show a more accurate picture of performance. We also show what we mean by “analysis” of performance data and how public entities could improve this.
- 1.11 Readers might find it helpful to refer to the annual reports of the public entities that we drew the examples from. The annual reports of the featured entities are on their websites, and the notes below the figures provide references to specific sources.
- 1.12 The six public entities featured in this report and their websites are:
- Accident Compensation Corporation: Te Kaporeihana Āwhina Hunga Whara ([www.acc.govt.nz](http://www.acc.govt.nz));
  - Department of Corrections: Ara Poutama Aotearoa ([www.corrections.govt.nz](http://www.corrections.govt.nz));
  - Ministry of Transport: Te Manatū Waka ([www.transport.govt.nz](http://www.transport.govt.nz));
  - New Zealand Customs Service: Te Mana Arai o Aotearoa ([www.customs.govt.nz](http://www.customs.govt.nz));
  - New Zealand Fire Service Commission: Whakaratonga Iwi ([www.fire.org.nz](http://www.fire.org.nz));  
and
  - Sport and Recreation New Zealand: Ihi Aotearoa ([www.sparc.org.nz](http://www.sparc.org.nz)).

## Part 2

# Legislative requirements and the use of annual reports

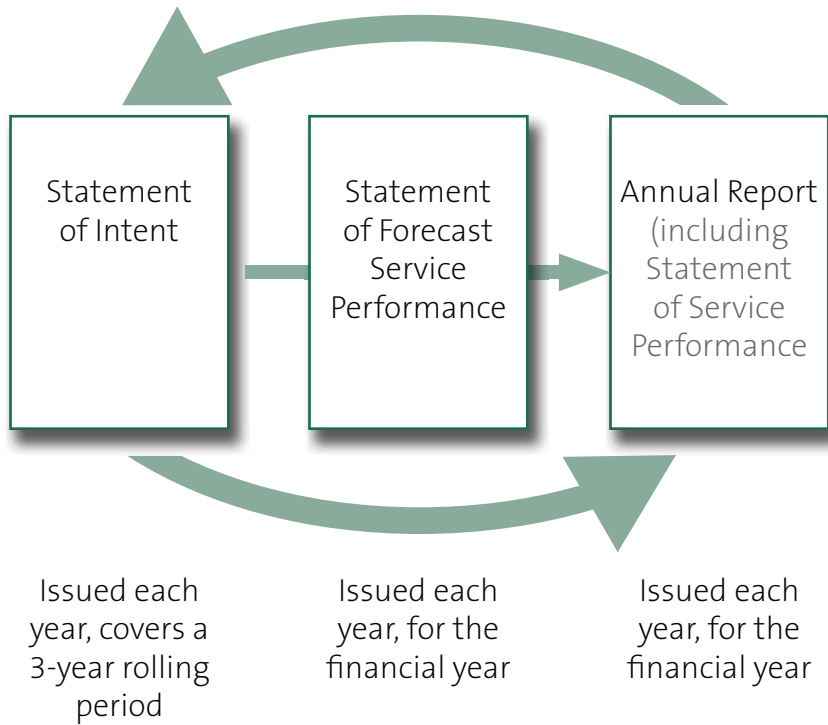
### Who uses performance reports?

- 2.1 The annual report is one of the ways a public entity discharges its accountability to Parliament and the public. According to the Treasury, an annual report:
- ... is the key resource for the financial review of the performance and current operations of each department conducted by select committees under the Standing Orders of the House of Representatives.<sup>2</sup>*
- 2.2 We consider that annual reports also serve a much wider purpose, providing information to people seeking information about public entities, their services, and their potential as an employer or as a customer. An annual report is an important tool for entities to promote what they do, how they deliver their services, and the value they provide to people.
- 2.3 Because different readers have different needs and expectations, the information in annual reports is unlikely to meet all their requirements.

### What does the legislation require?

- 2.4 The PFA and CEA set out the requirements for an entity's planning and reporting documentation. The Acts require, within the main planning and reporting documents that an entity produces:
- the forecasts (contained in the Statement of Intent and the forecast Statement of Service Performance (SSP) and, for government departments, the Information Supporting the Estimates); and
  - actual performance delivered (contained in the SSP in the annual report).
- 2.5 Figure 1 outlines these links.

**Figure 1**  
**Cycle of public entity accountability documents for public entities**



2.6 The annual report should have strong links between forecast performance and actual performance. The annual report should “feed into” the next year’s forecast and signal any intended changes in direction, services, or actions based on an analysis of the current year’s performance.

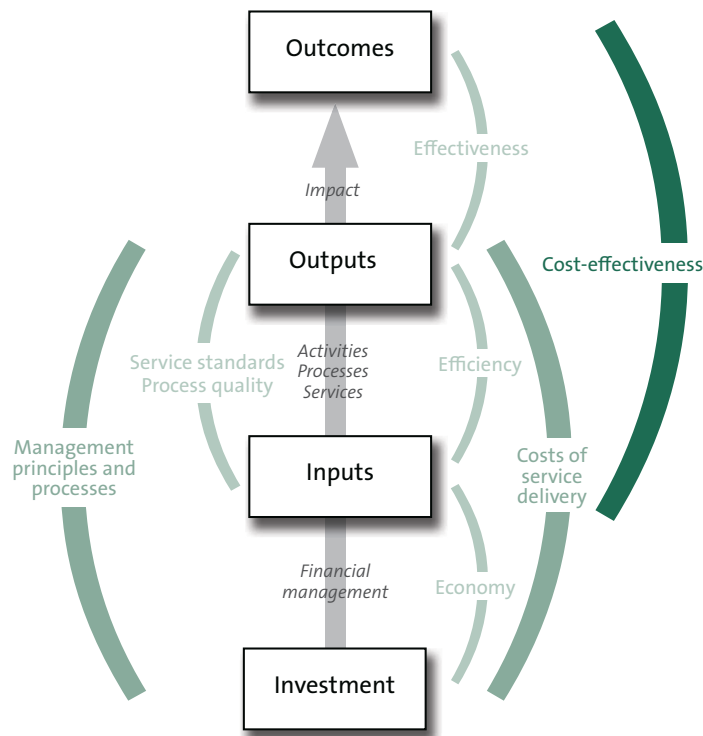
- 2.7 The PFA and CEA specify the information that must be in the SSP.<sup>3</sup> The SSP must:
- describe each class of outputs the entity proposes to supply during a financial year;
  - include measures and forecast standards of output delivery for each class of outputs;
  - identify the expected revenue to be earned and the proposed output expenses to be incurred for each class of outputs;
  - be prepared in keeping with generally accepted accounting practice; and
  - include any other measures and standards needed to assess the entity’s performance at the end of a financial year.

3 Section 41 of the PFA. The CEA specifies similar requirements in section 142.

- 2.8 A public entity is also required to publish the main measures and standards that it intends to use to assess and report on matters relating to its future performance, including:<sup>4</sup>
- the impacts, outcomes, or objectives the entity achieved or contributed to (including possible unintended impacts or negative outcomes);
  - the cost-effectiveness of the interventions that the entity delivers or administers;
  - the entity's organisational health and capability to perform its functions and conduct its operations effectively; and
  - any other matters that are reasonably necessary to achieve an understanding of the entity's operating intentions and direction.
- 2.9 Together, these requirements provide a framework that is intended to focus performance reporting on the outcomes that an entity has sought to achieve. At a minimum, an entity should report what it delivered, the volumes of delivery, the standards to which it delivered its outputs, and how much it cost to deliver those outputs. As a result, an entity should be able to report on the impacts and the cost-effectiveness of the outputs that were used to achieve the outcomes.
- 2.10 Figure 2 summarises the above into an outcome-based performance management model. The model shows the relationship between different kinds of measures and what they tell us about performance.

4 Section 40 of the PFA. The CEA specifies similar requirements in section 141.

**Figure 2**  
Outcome-based performance management model



- 2.11 There has been debate in the public sector for some time about the interpretation of the specific provision about “cost-effectiveness” in the PFA. The two measures in this model that show the performance story of an entity are effectiveness and cost-effectiveness. In other words, what impact did the entity have that contributed to the desired outcome(s), were the services effective in achieving the desired result, and, in that context, did the delivered services provide value for money? Therefore, the basis for assessing cost-effectiveness is already contained in the financial and performance information required by the PFA or the CEA.
- 2.12 Assessing and reporting cost-effectiveness is a vital management tool. Cost-effectiveness is a result of the process of applying inputs to create outcomes. Cost-effectiveness varies over time and is influenced by external and internal events. It is an evaluation or an assessment rather than a handful of bespoke measures.
- 2.13 Providing information, analysis, and interpretation is important for a public entity in discharging its accountability requirements to comply with the PFA or CEA and



generally accepted accounting practice. The PFA, CEA, and generally accepted accounting practice do not preclude public entities from including additional information. As a general principle, commentary should be used when necessary to provide additional contextual information that helps the user to understand the nature of the performance.<sup>5</sup> In our view, public entities should be including this contextual information so that readers do not have to interpret the results themselves.

- 2.14 Therefore, we expect to see in an entity's annual report that the entity has analysed and evaluated its performance in the context of economy, efficiency, effectiveness, and cost-effectiveness. We also expect to see that the entity has honestly appraised how it has performed.

### What do we expect to learn from annual reports?

- 2.15 An annual report should contain an analysis of performance results. Such an analysis requires having a set of appropriate measures and robust systems to collect the results, followed by procedures to analyse, interpret, and evaluate the information. At this stage, an entity can determine what actions it should take based on the analysed information.
- 2.16 The formal requirements in the PFA and CEA can be distilled into three main sets of information:
- **Achievements** – Achievements include reporting on outputs delivered, the effect the outputs had on outcomes, and comparisons with past performance.
  - **Value** – The costs of the outputs delivered compared to what was achieved – that is, the cost-effectiveness of the outputs and the value delivered. The reader should be able to tell how this has changed over time to determine whether the entity is delivering improvements in cost-effectiveness.
  - **Performance interpretation** – This is an explanation of the main trends during the past five to 10 years, changes that were or might be required in any aspect of the business, and results of any major management or policy decisions or operational changes made in recent years.
- 2.17 In a useful and effective annual report, the reader should be able to form a view on the performance of the entity and whether it is doing well and providing value for money, and read other relevant information. An entity inspires confidence and trust when it clearly demonstrates that it knows its own business, is consistently performing well, delivers value for money, and is transparent about any changes it needs to make and what it can do better.

<sup>5</sup> New Zealand Institute of Chartered Accountants (2007), Technical Practice Aid No. 9: *Service Performance Reporting*, paragraph 7.16.

## What can we learn from the current annual reports?

- 2.18 Annual reports commonly include:
- **A description of the entity's operating environment** – This details factors or changes in the environment that might have affected the entity's performance or influenced its decisions about service delivery or operating models, and how the entity responded to them.
  - **A description of the achievements for the reporting year** – This generally comprises an overview of activities carried out and/or completed, including any new initiatives or changes to services or service delivery methods.
  - **Measures against service standards (the SSP)** – This sets out how the entity performed in delivering its outputs against what it had forecast and the standards it had set for each aspect. Some entities include their previous year's results alongside the current reporting year for comparison.
  - **Financial performance** – This information is set out in keeping with the requirements of the PFA or CEA and generally accepted accounting practice, and includes the expenditure incurred in delivering each class of outputs.
  - **Other information** – This may include, for example, organisational structures, governance structures, capability, legislation the entity administers, and a glossary of terms.
- 2.19 The annual report's structure is at the discretion of each public entity. It varies widely according to organisational preferences and style.
- 2.20 There are many examples of annual reporting practice that public entities consistently do well. However, there is a lack of good practice in measuring or evaluating impacts and outcomes (results as opposed to outputs alone), and reporting the cost-effectiveness of services or outputs, and analysing these against organisational strategies, operating models, outputs, or inputs.
- 2.21 We consider that, particularly in the current economic climate of little or no new investment from central government, public entities need to improve their analysis and disclosure of their performance to be clearer about their service delivery decisions.

## Part 3

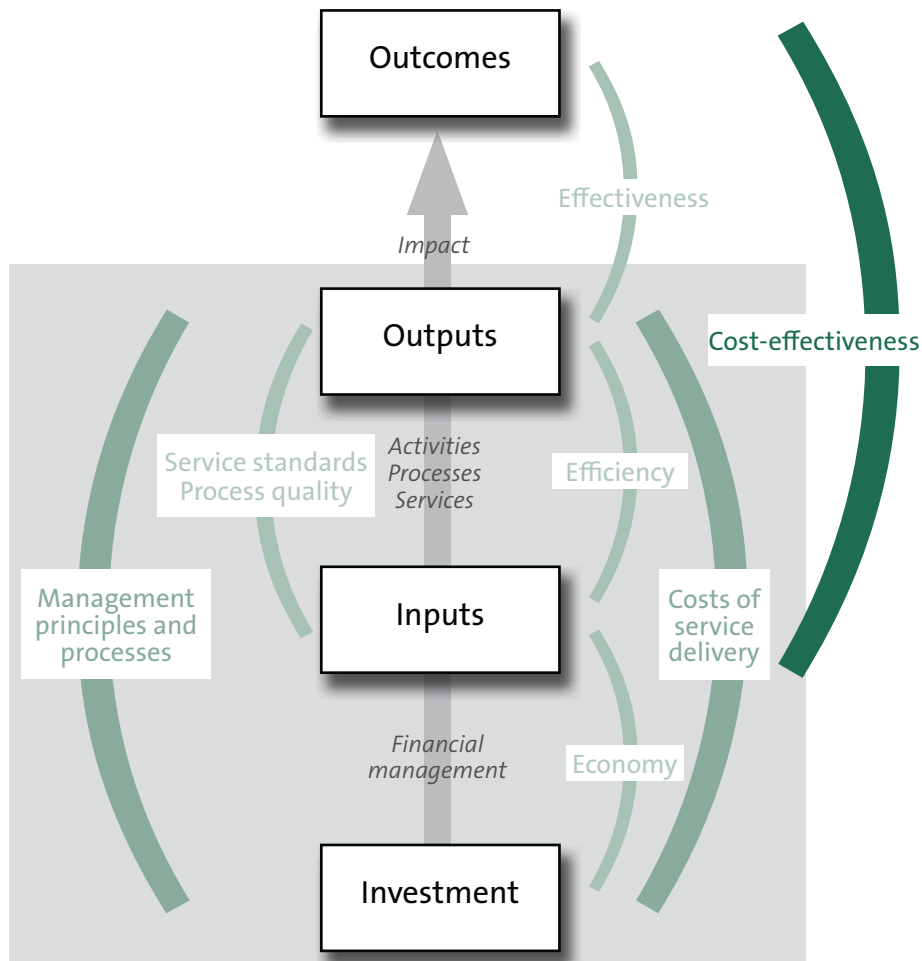
# Analysing the cost of delivering services

### The first part of the performance story

- 3.1 An entity measures the cost of its service delivery by assessing whether it is providing its goods and services economically and efficiently. Therefore, economy (the relationship between investment and inputs) and efficiency (the relationship between inputs and outputs) measures form the foundation of performance analysis. These measures are usually found in the SSPs in annual reports.
- 3.2 The SSP must:
- describe each class of outputs the public entity supplied during the financial year; and
  - include, for each class of outputs:
    - the standards of delivery performance the public entity achieved, compared to the standards included in its forecast SSP at the start of the financial year; and
    - the actual revenue earned and output expenses incurred, compared to the expected revenue and proposed output expenses included in its forecast SSP at the start of the financial year.<sup>6</sup>
- 3.3 However, this reporting is not an end in itself, but the starting point for determining the performance story. It is the first component of the two essential parts of creating a true picture of an entity's performance.
- 3.4 Figure 3 illustrates this by shading the economy and efficiency measures.

<sup>6</sup> Section 45A of the PFA. The CEA sets out similar requirements in section 153.

**Figure 3**  
Outcomes model, indicating areas of output reporting



- 3.5 Output classes are groupings of similar outputs, which are used to enable the reader to make sense of the public entity's outputs without being overwhelmed with detail. All significant goods and services should be identified and reported on within an entity's output classes, to ensure that readers get a comprehensive, balanced, and proportionate picture of the public entity's services.
- 3.6 Determining the level and basis for aggregating performance information is a matter for judgement. In practice, many public entities' outputs classes are comprised of several individual outputs.

- 3.7 Outputs can be similar in a number of ways. For example, they could be grouped according to:
- the outcomes to which the outputs contribute – this can help a reader understand the extent of effort an entity directs to achieving its outcomes;
  - the intended recipient of the service or the purpose to which the outputs contributes – this can help a reader understand, for entities with a range of different roles or functions, the extent of resources committed to carrying out each role or function;
  - similarity in the nature of the outputs – this can help a reader to understand output efficiency, or the cost at which services are delivered.
- 3.8 To analyse performance and the cost-effectiveness of services, output class reporting needs to be based on a clear and justifiable rationale for aggregating the output information. The New Zealand Institute of Chartered Accountants Technical Practice Aid 9 *Service Performance Reporting* (TPA-9) advises that, as a general principle and just as for financial reporting, outputs should be aggregated according to their nature.
- 3.9 Depending on the basis used to comprise an output class, the key aspects of an entity's performance, effectiveness, and efficiency story may not be clear enough for a reader to understand and assess the costs and performance information of significant or differing individual outputs within an output class. Where this is the case, entities should provide more information, and break down the information to ensure that this story is set out.
- 3.10 Likewise, most entities report against their output revenue and expenses at the output class level as a whole, and do not break the information down into revenue and expenditure by outputs. Figure 4 sets out public entities' approach to reporting against outputs.

**Figure 4**  
Public entities' usual approach to reporting against outputs

	Actual [prior year] \$	Budget \$	Actual [current year] \$
<i>Revenue</i>			
Crown revenue			
Other revenue			
<b>Total revenue</b>			
<i>Expenses</i>			
Annual appropriation			
Other appropriation			
<b>Total expenses</b>			
<b>Net surplus/(deficit)</b>			

- 3.11 The drawback of this approach is that one overall revenue and expenditure amount for each output class can make it difficult for the reader to understand the significant influences on output class revenue and expenditure results.
- 3.12 Public entities could be more consistent in how they structure and present the financial and non-financial information within the forecast and actual performance reports (such as output titles and descriptions). Such consistency ensures that readers can confidently put the right aspects of information together.
- 3.13 We consider that entities could improve their output reporting by:
- **Providing breakdowns** – Allocating revenue and costs to significant or differing individual outputs within each output class. This would increase the value of reporting by showing the cost of carrying out outputs, where the basis of output class aggregation would not otherwise allow service efficiency to be assessed.
  - **Using a consistent structure and description** – Public entities should use consistent output classes, and output titles and descriptions, throughout their forecast information, including in their financial information. This links services and performance levels with their associated costs.
  - **Providing context** – The reader will understand the results better if the entity provides contextual information about challenges and the entity's responses to them alongside the numbers. Commentary on the effects that the environment and the challenges have had on service levels, impacts, and outcomes provides a more rounded picture of performance. Historical

information helps readers see trends. We cover the importance of trend data and analysis in more depth later.

- **Having appropriate measures** – The selected performance measures need to be appropriate and reflect the significant outputs provided. Measures should offer the greatest insight possible into critical aspects of the outputs and their delivery.
- **Giving an honest appraisal** – Whether it is good, bad, or indifferent, the reader wants to know what the entity makes of its own performance, and that it is managing performance as a result. We consider that public entities could do better than merely reporting “achieved” or “not achieved”. Commentary explaining the performance result provides context for understanding how that performance result was arrived at and the entity’s response.

## Examples of output reporting

### New Zealand Fire Service Commission

- 3.14 How the performance results are set out for reporting purposes is very important for providing an analysis of impacts and cost-effectiveness.
- 3.15 In its 2009/10 annual report, the New Zealand Fire Service Commission (the Fire Service), illustrates good practice in output reporting. Figure 5 shows how, for each of its three output classes, the Fire Service breaks its reporting of the revenue and expenditure performance measures down into significant individual outputs.

**Figure 5**  
**New Zealand Fire Service Commission - reporting of revenue and expenditure for output classes**

## Output classes – other revenue and income

	2009/2010 Actual other revenue and income \$000 GST excl.	2009/2010 Budget other revenue and income \$000 GST excl.	2008/2009 Actual other revenue and income \$000 GST excl.
<b>Output Class 1: Fire safety education, prevention and advice.</b>	<b>1,479</b>	<b>965</b>	<b>2,231</b>
Output 1.1: Fire prevention and advice to the general public.	776	472	1,425
Output 1.2: Professional and technical advice to the built environment public.	200	94	134
Output 1.3: Fire safety legislation.	503	399	672
<b>Output Class 2: Firefighting and other Fire Service operations.</b>	<b>10,443</b>	<b>8,292</b>	<b>11,111</b>
Output 2.1: Operational readiness.	7,167	5,409	6,509
Output 2.2: Operational responses to fire and other emergencies.	2,901	2,835	4,592
Output 2.3: Wider emergency management capability.	375	48	10
<b>Output Class 3: Rural fire leadership and coordination.</b>	<b>1,928</b>	<b>2,419</b>	<b>3,606</b>
Output 3.1: Advice and support to fire authorities and rural fire committees and administration of the Rural Fire Fighting Fund and grant assistance schemes.	1,920	2,415	3,597
Output 3.2: Rural fire standards, audit, evaluation of fire authority performance and management of the fire weather monitoring and prediction system.	8	4	9
<b>Total other revenue and income assigned to outputs</b>	<b>13,850</b>	<b>11,676</b>	<b>16,948</b>



## Output classes – total expenditure

	2009/2010 Actual total expenditure \$000 GST excl.	2009/2010 Budget total expenditure \$000 GST excl.	2008/2009 Actual total expenditure \$000 GST excl.
<b>Output Class 1: Fire safety education, prevention and advice.</b>	<b>47,652</b>	<b>46,330</b>	<b>48,252</b>
Output 1.1: Fire prevention and advice to the general public.	31,332	29,309	35,380
Output 1.2: Professional and technical advice to the built environment public.	14,486	14,866	4,217
Output 1.3: Fire safety legislation.	1,834	2,155	8,655
<b>Output Class 2: Firefighting and other Fire Service operations.</b>	<b>252,864</b>	<b>258,070</b>	<b>247,212</b>
Output 2.1: Operational readiness.	205,631	209,692	204,715
Output 2.2: Operational responses to fire and other emergencies.	40,059	40,855	42,190
Output 2.3: Wider emergency management capability.	7,174	7,253	307
<b>Output Class 3: Rural fire leadership and coordination.</b>	<b>8,339</b>	<b>9,063</b>	<b>6,319</b>
Output 3.1: Advice and support to fire authorities and rural fire committees and administration of the Rural Fire Fighting Fund and grant assistance schemes.	7,811	8,544	6,044
Output 3.3: Rural fire standards, audit, evaluation of fire authority performance and management of the fire weather monitoring and prediction system.	528	519	275
<b>Total expenditure assigned to outputs</b>	<b>308,855</b>	<b>313,463</b>	<b>301,783</b>

Source: New Zealand Fire Service Commission, *Annual Report 2009/10*, pages 36-37.

- 3.16 Figure 6 gives an example of how each significant output has the performance measure, target, actual result, and previous year's result as a comparison.

**Figure 6**  
**New Zealand Fire Service Commission - reporting of performance measures for significant outputs**

**Output 3.1: Advice and support to fire authorities and rural fire committees and administration of the rural fire fighting fund and grant assistance schemes**

*Performance measures*

Measure	2009/2010 Actual	2008/2009 Actual	2009/2010 SOI target
3.1.1 Percentage of fire authorities advised of the results of their grant applications (estimated at between 40 and 80 and \$1.7m in value) within two months of the application cut-off date.	100% (66)	100% (67)	100%
3.1.2 Percentage of approvals for grant assistance applications in accordance with the Commission's policy as verified by internal audit.	100%	100%	100%
3.1.3 Percentage of fire authorities advised of the results of their claim within two months of it being lodged with the NRFA under the rural fire fighting fund.	99%	95%	90%
3.1.4 Percentage rural fire fighting fund claim decisions accepted without recourse to mediation.	100%	100%	95%
3.1.5 Percentage of members of regional rural fire committees indicating satisfaction with administrative support and meeting facilitation, as determined by an independent survey.	69% (admin) 85% (meeting)	81% (admin) 77% (meeting)	95%

Source: New Zealand Fire Service Commission, *Annual Report 2009/10*, page 44.

- 3.17 Structuring and labelling data consistently in the financial and non-financial parts of the annual report aids clarity and analysis. Allocating revenue and expenditure to significant individual outputs means that the Fire Service has provided the basis for analysing its performance, including cost-effectiveness.

## New Zealand Customs Service

- 3.18 The 2009/10 annual report of the New Zealand Customs Service (Customs) also illustrates good practice in output reporting. As Figure 7 shows, Customs includes commentary that provides contextual information and explains its achievements for the period.

**Figure 7**  
New Zealand Customs Service - reporting of output classes

### OUTPUT CLASS – SURVEILLANCE, SEARCH AND CONTAINMENT

*Scope of appropriation:* The targeted surveillance, search and containment of risk craft, persons or goods.

COST (FIGURES ARE EXCLUDING GST)				
30/6/09		30/6/10		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
<b>Revenue</b>				
6,876	Crown	6,850	6,860	6,810
151	Other	165	140	137
7,027	TOTAL REVENUE	7,015	7,000	6,947
6,880	EXPENSES	6,849	7,000	6,947
147	SURPLUS/(DEFICIT)	166	-	-

### PERFORMANCE

We anticipated participating in between 5 and 10 event readiness exercises in 2009/10 and we undertook 10 such exercises. Event readiness exercises involve practising skills and procedures specific to particular events or threats such as pandemics and terrorism. In 2009/10, the exercises in which Customs participated included exercises relating to people smuggling and to preparation for the Rugby World Cup 2011.

We also participated in six multi-agency targeted operations with agencies such as the Royal New Zealand Navy (relating to the use of Project Protector Inshore Patrol Vessels for specific targeted operations) and the New Zealand Police (relating to drug operations).

Participation by Customs staff in multi-agency operations was a factor in Customs not meeting performance standards relating to targeting arriving commercial vessels and completing planned routine patrol and surveillance days. Those standards were not met for 2009/10 due to a reprioritisation by Customs leading to resources being redirected to higher priorities such as targeted operations and training relating to, and the build-up to deployment of, the Royal New Zealand Navy's Project Protector Inshore Patrol Vessels (a valuable tool available for use by Customs in undertaking our duties in relation to arriving marine craft).

PERFORMANCE MEASURES AND STANDARDS				
2008/09		2009/10		
ACTUAL	MEASURE	ACTUAL	STANDARD	VARIANCE
New measure	Arriving vessels are risk assessed	100%	100%	–
86.7%	Vessels risk assessed as high or very high targeted	94.7%	Min 95%	-0.3%
6.2%	Arriving commercial vessels targeted	2.4%	Min 5%	-52.0%
New measure	Targeted responses carried out in accordance with the intelligence-directed recommendations based on level of risk	93.8%	Min 80%	–
92	Operational responses completed	52	40–50	4.0%
New measure	Planned routine patrol and surveillance days completed	71.8%	Min 80%	-10.3%
100% – amended standard	Routine patrols and surveillance carried out in accordance with the patrol and surveillance plans for each location	Yes	Yes	–
Yes – amended standard	Event readiness exercises subject to agreed plans and/or guidelines and debriefed with agencies involved	100%	100%	–
New measure	Multi-agency targeted operations undertaken	6	Min 6	–

#### Explanation of significant variances

##### Vessels risk assessed as high or very high are targeted

The achievement of this measure was affected by a specific vessel which makes regular and multiple arrivals in New Zealand. Customs manages the risk associated with that vessel as part of a long-term plan by varying our responses to arrivals of that vessel. If that one vessel is excluded from the calculation, 100% of vessels risk assessed as high or very high were targeted.

##### Arriving commercial vessels targeted and Planned patrol and surveillance days completed

These variances are due to the redirection of relevant Customs resources to other priorities:

- ▶ targeted operations under the Government Action Plan on Methamphetamine
- ▶ involvement in training relating to, and the build-up to deployment of, the Royal New Zealand Navy's Project Protector Inshore Patrol Vessels and then operations involving the deployment of these vessels.

Although there was a smaller proportion of commercial vessels being specifically targeted than planned, all vessels were risk assessed prior to their arrival in New Zealand.

- 3.19 In summary, public entities should use output reporting as the starting point for an in-depth performance analysis.

### Conclusions on analysing the cost of service delivery

- 3.20 Outlining the cost of service delivery (through efficiency and economy measures) is the first step in producing a robust performance report. Readers need to know what was planned to be delivered, what was actually delivered, how much the outputs cost, and to what standard they were delivered.
- 3.21 Most public entities' annual reports tell readers how much a class of outputs cost to deliver. Although the PFA and the CEA require public entities to report performance based on classes of outputs, an entity can report at an output level if this provides better information to the reader. Revenue and expenditure can be allocated at an individual output level, and some entities are already reporting in this way. Also, reporting at an output level can reveal performance issues that reporting at the class of outputs level does not.
- 3.22 Public entities need to pay more attention to providing contextual and explanatory information about their results and achievements, whether or not they are favourable. Readers are too often left to draw their own conclusions because entities have not provided enough contextual or evaluative information about their performance.
- 3.23 In many cases, service delivery can be evaluated better if reporting is at a significant individual output level rather than at the class of output level. Although there is no legislative requirement to show reporting at the individual output level, it can increase the value of reporting by showing the cost of carrying out significant services.

---

#### Recommendation 1

We recommend that public entities structure the service performance and cost of service information to show the efficiency and economy aspects of performance.

---

#### Recommendation 2

We recommend that public entities provide better analysis and evaluation of their achievements so that readers have a full picture of the entity's performance.

---



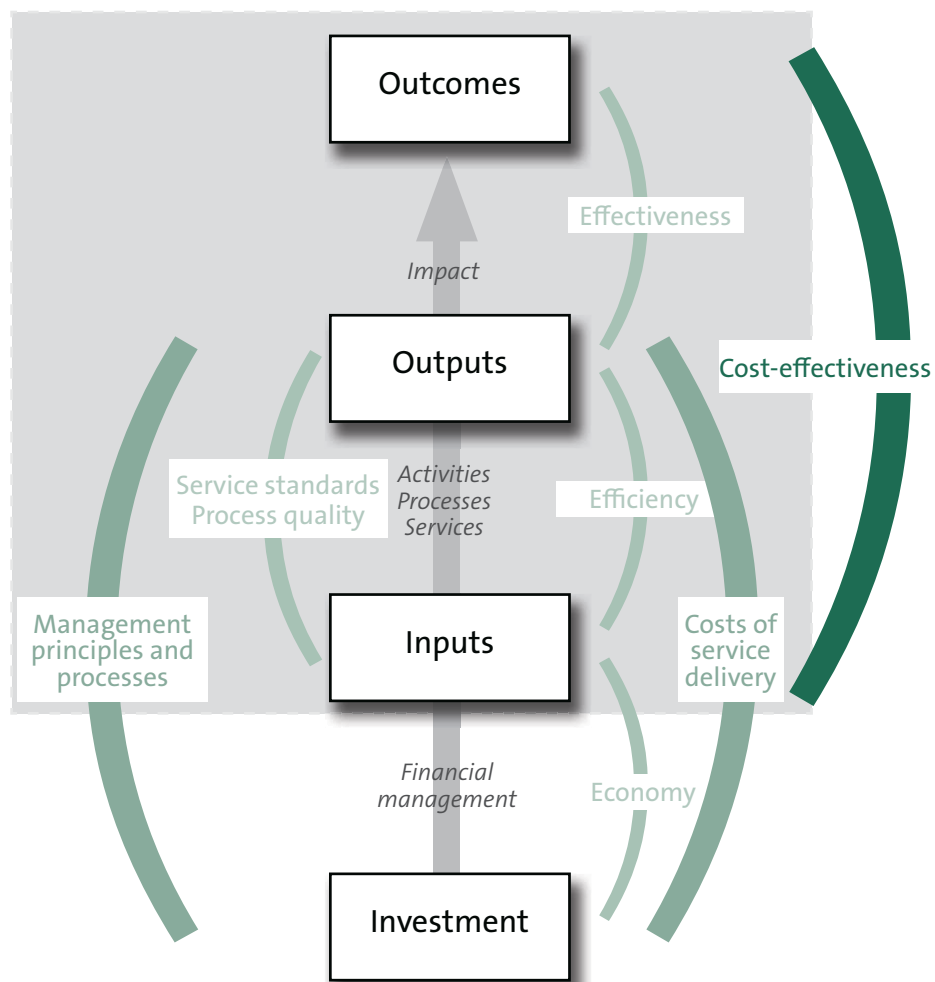
# Part 4

## Measuring and reporting impacts, outcomes, and cost-effectiveness

### The second part of the performance story

- 4.1 Cost-effectiveness is made up of effectiveness and efficiency – that is, the relationship between inputs, outputs, and outcomes.
- 4.2 Figure 8 highlights the second part of the performance analysis – measuring and reporting impacts and outcomes and cost-effectiveness.

**Figure 8**  
Outcomes model, indicating areas of impact and outcomes and cost-effectiveness measures



- 4.3 Most public entities work towards a number of outcomes at the same time. Those outcomes often differ in terms of how long they might take to achieve, how complex and difficult they are, and what portion of society they might affect. Most public entities also recognise the difficulties of measuring outcomes to which they might be only one contributor among many, or that might take years to achieve.
- 4.4 These difficulties can be addressed by separating outcomes that are long term, or “strategic” outcomes, from “immediate result” outcomes that are the direct consequence of the services or activities of the entity. These “immediate result” outcomes are often referred to as “impacts”. They represent the relatively immediate or direct effect on stakeholders of the entity’s outputs.
- 4.5 Strategic outcomes and impacts are both important. However, when measured alongside the cost-effectiveness of outputs, impact measures provide management with a better picture of performance. The impact measures gauge a more direct effect of an entity’s activities and services: cost-effectiveness reflects the value for money of these services. For services to be truly effective, they must also be cost-effective, because few taxpayers are willing to fund services that achieve a positive impact at an unaffordable price.
- 4.6 There is a danger in creating measures that are convenient because the information can be easily captured or recorded rather than having measures that are important and relevant to assess service delivery. We encourage public entities to seek impact measures that provide a picture of what actually achieves results. To invest public funding wisely, public entities need to continue to seek ways of measuring their contribution to outcomes, however difficult this may be.
- 4.7 Similarly, the cost-effectiveness of services, initiatives, and other outputs are important matters for public entities to consider in determining where and when to invest resources, and when and how to adjust their strategies or change aspects of their operating model.
- 4.8 At its simplest, cost-effectiveness is about the relationship between the investment – the input of dollars and resources – to the result, or the impact or outcome achieved.
- 4.9 Some entities carry out internal assessment of cost-effectiveness to use in, for example, decision-making, internal budget allocations, and developing performance improvement initiatives. There might be more examples of this than are currently included in annual reports, statements of intent, or forecast SSPs. If there are, we would like to see the results of this analysis included in annual reports.



- 4.10 One of the difficulties for entities is how much to invest in gathering and analysing the data that will help to determine cost-effectiveness. Entities need to consider ways of achieving this data collection that are the most efficient possible, and do not adversely affect services or customers.
- 4.11 We have included examples to help entities consider and determine their own approach to measuring their impacts and reporting the cost-effectiveness of their services. The examples that show how to measure impacts are taken directly from entities' annual reports. We have created the examples that show cost-effectiveness, using information in those entities' annual reports.

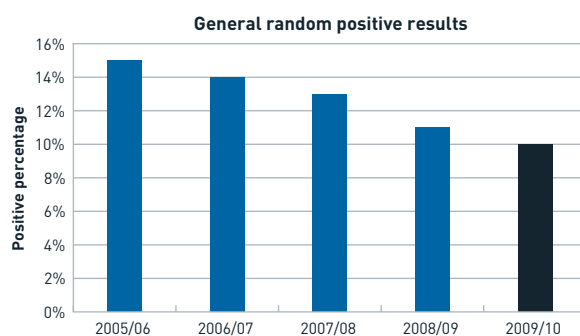
## Examples of measuring impacts and outcomes

### Department of Corrections

- 4.12 This example features the strategy used by the Department of Corrections (Corrections) to reduce alcohol and drug use among prisoners:
- A high proportion of prisoners have a lifetime incidence of drug dependency or abuse, and a high percentage of crime is committed by offenders who are affected by drugs or alcohol on the day leading up to the offence. Drug use is also a major security problem in prison and causes problems for the effective management and rehabilitation of prisoners. It can also result in health problems for both individual prisoners and the wider community, and promote the transmission of communicable diseases.*
- The Department is committed to reducing drug and alcohol use in prisons as highlighted in the Drug and Alcohol Strategy to cover the period 2009-2014. The strategy focuses on:*
- *enhancing efforts to reduce the supply of drugs to prisoners;*
  - *strengthening efforts to reduce prisoners' demand for drugs; and*
  - *increasing attention on reducing the harm caused by drugs.<sup>7</sup>*
- 4.13 To test the effectiveness of this strategy, Corrections randomly drug tests inmates, and publishes the results in its annual report.
- 4.14 Corrections understands that if its strategies to reduce alcohol and drug use within prisons are effective then the rate of drug usage will decline over time. To measure this rate over time, it randomly drug tests the inmates. Figure 9 shows a trend of declining drug usage. This is the hardest evidence available to test the effectiveness of Corrections' strategies. It does not prove that the only cause for this trend is Corrections' actions, but it is convincing evidence in support of its approach.

<sup>7</sup> Department of Corrections, *Annual Report 2008/09*, page 13.

**Figure 9**  
**Department of Corrections - results of random drug testing in prisons**



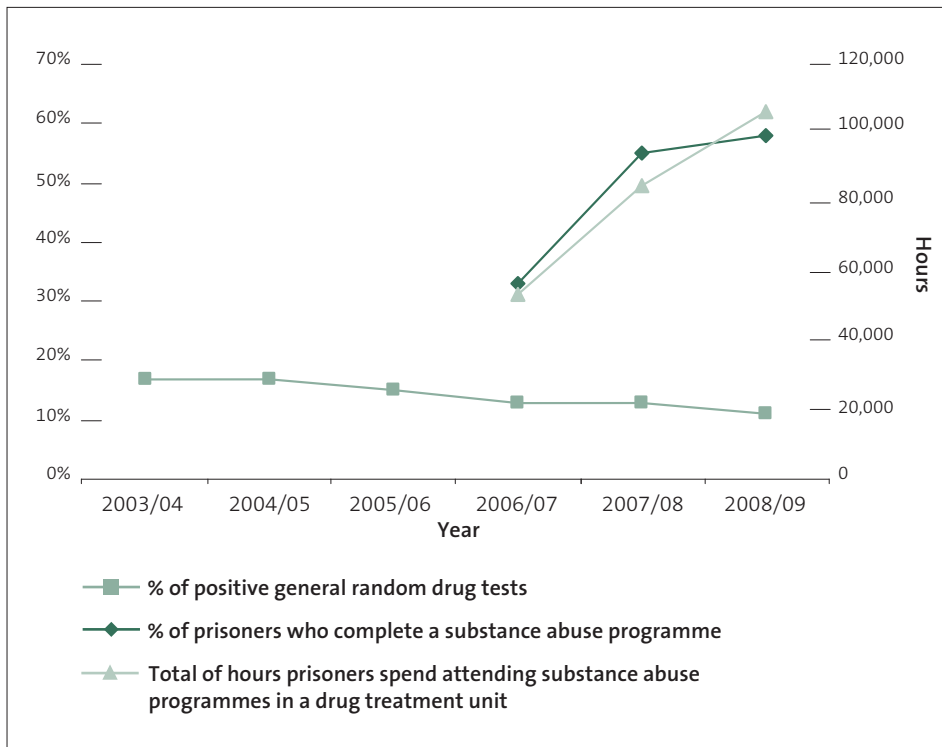
Source: Department of Corrections, *Annual Report 2009/10*, page 10.

- 4.15 Corrections completed similar analysis for other services, including recidivism and escapes from custody. Again, as is common with some entities' annual reports, the reader cannot see or estimate the costs of the drug and alcohol rehabilitation services because cost data is provided at an output class level. However, Corrections appears to be clear about which services are directly targeted (and could be costed) at reducing drug usage in prisons:
- This output entails the identification of drug users in prisons through the administration of three random drug screening programmes and other drug screening tests. It includes the costs of checkpoint drug control activities, drug dog services, and other activities undertaken alone or with other agencies.<sup>8</sup>*
- 4.16 These costs, plus the rehabilitation costs, would be Corrections' total expenditure invested in reducing the use of drugs in prison. Trends in prisoner hours on programmes and the percentage of prisoners who complete the programmes appear to be associated with the lowering trend of positive drug tests (see Figure 10). The evidence indicates that the strategy appears to be working. However, data for three years is not enough to make any definitive statements – that would require data spanning five to 10 years.
- 4.17 Figure 10 does not appear in Corrections' annual reports – we have created it using data in those reports. We created it to show how the story of effectiveness can be told, using data already collected and reported.<sup>9</sup>

<sup>8</sup> Department of Corrections, *Annual Report 2006/07*, page 95.

<sup>9</sup> Corrections has changed its performance measures, so the 2009/10 results were not available in its 2009/10 annual report.

**Figure 10**  
**Department of Corrections — effectiveness of drug and alcohol rehabilitation services**



4.18 Corrections is demonstrating good practice in measuring the effect of its drug and alcohol reduction strategies. Random sampling of inmates for drugs and alcohol measures the effectiveness of its drug and alcohol prevention strategies. The increase in the total hours prisoners spend attending substance abuse programmes and the percentage that complete a substance abuse programme appear to have resulted in a declining trend in the percentage of positive general random drug tests. However, the result could have been attributable to a number of other interventions, such as improving the quality of prison security measures or prisoners choosing not to take drugs – the reasons are not clear and Corrections could include some commentary to explain its performance.

**Accident Compensation Corporation**

4.19 The Accident Compensation Corporation (ACC) measures rehabilitation rates based on the number of days of weekly compensation paid to clients before they leave the scheme. This indicates the duration of financial support provided to

its clients before they can again become self-supporting (that is, return to paid employment).

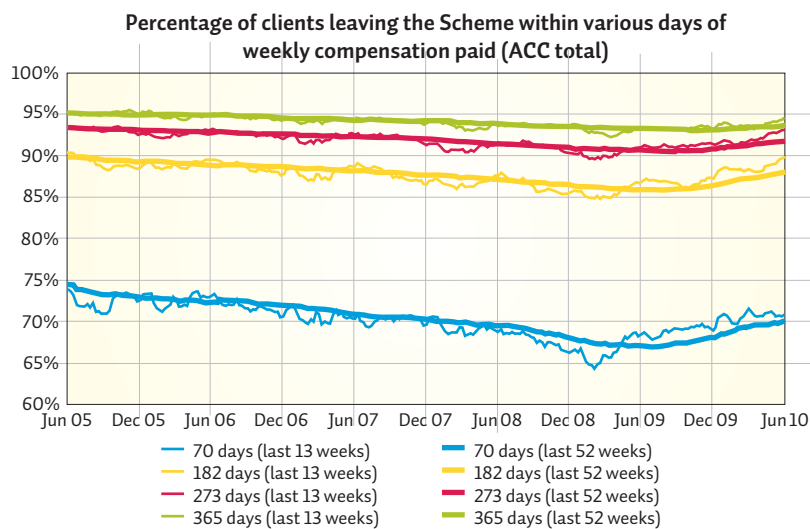
4.20 ACC’s 2009/10 annual report relates the above performance measure directly to its outcome “Rehabilitate injured people in New Zealand more efficiently”:

*This outcome aims to ensure that people with injuries covered by the Scheme get the rehabilitation necessary to return to work or everyday life, at a reasonable cost.<sup>10</sup>*

4.21 Figure 11 shows ACC’s progress in meeting targets and achieving this outcome.

**Figure 11**  
**Accident Compensation Corporation – effectiveness of rehabilitation programmes**

Percentage of clients receiving weekly compensation who have left the Scheme within:	2009–2010 result	2009–2010 target	2008–2009 result
70 days	70.0%	69.0%	67.1%
182 days	88.0%	N/A	85.9%
273 days	91.8%	91.3%	90.6%
365 days	93.7%	N/A	93.3%



Source: Accident Compensation Corporation, *Annual Report 2009/10*, page 23.

10 Accident Compensation Corporation, *Annual Report 2009/10*, page 9.

- 4.22 Improved performance in all time categories is evident from about December 2009 onwards. ACC states that:

*In order to improve rehabilitation performance, which had been declining since 2005, ACC implemented a new service delivery model in July 2009 that aligns with best practice claims management for injury compensation schemes.<sup>11</sup>*

- 4.23 Although it is a very short time since the introduction of its new service delivery model, ACC's use of measures of rehabilitation rates, and its practice of reporting these over a long time, provides a clear picture of the impact of its activities on claims rehabilitation management. ACC was able to identify the declining rehabilitation rates and to develop and implement a new service delivery model to address this trend. Figure 11 is a good example of the advantages of measuring the impact of an entity's outputs on its outcomes.

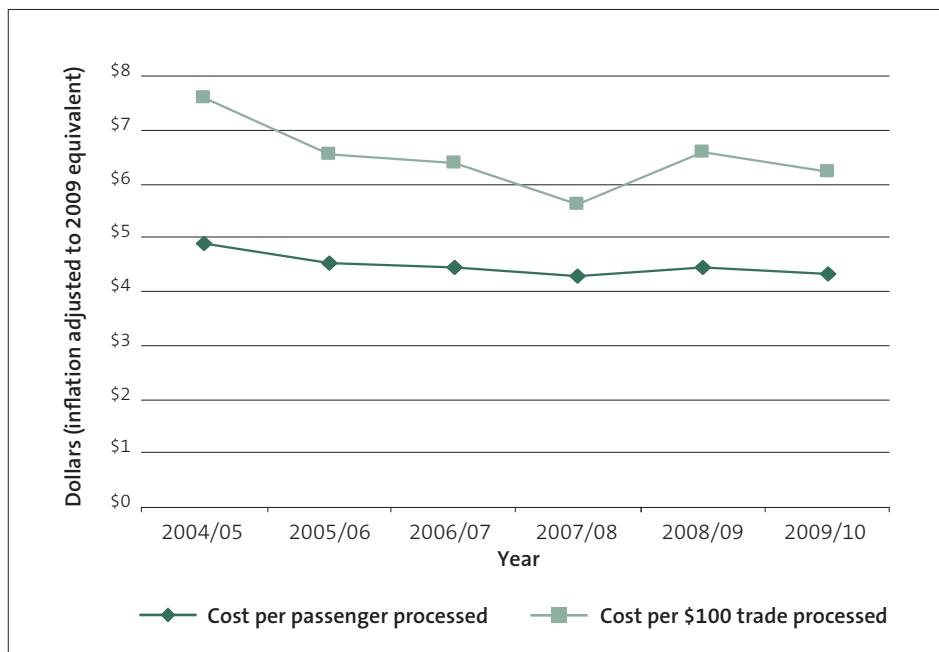
## Examples of reporting cost-effectiveness

### New Zealand Customs Service

- 4.24 Figure 12 demonstrates the difficulty and usefulness of developing and reporting cost-effectiveness. Figure 12 shows information Customs is developing for reporting in its forthcoming annual reports - the cost for each passenger processed and the cost for each \$100 of trade processed.

11. Accident Compensation Corporation, *Annual Report 2009/10*, page 22.

**Figure 12**  
New Zealand Customs Service – processing cost measures



- 4.25 The graph in Figure 12 relates two sets of data (expenses and volume) to provide a simple picture of cost-effectiveness over time. Although a simple depiction, the graph suggests that Customs has improved its cost-effectiveness and the value of its services in processing passengers and trade. Clearly, several internal and external factors will influence the cost of processing passengers and trade volumes. If Customs thought this a useful method for setting out longer-term results, it could improve this information by explaining factors that are likely to influence the achievement trend, and factors that could affect the results.
- 4.26 Customs has adjusted the cost of processing to reflect inflation, so Figure 12 is stated in 2009/10 dollars. This provides a more accurate picture of effectiveness and cost-effectiveness over time.
- 4.27 To make the performance story richer, Customs could include the volume of passengers and trade processed to relate quantity to cost-effectiveness.

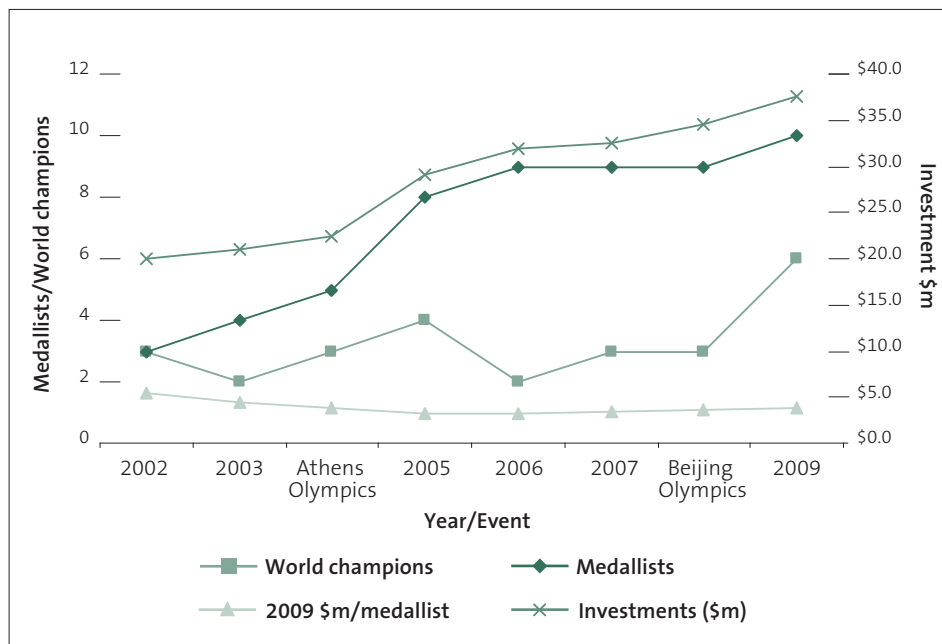
### Sport and Recreation New Zealand

- 4.28 The investment in high-performance sport made by Sport and Recreation New Zealand (SPARC) provides another example of cost-effectiveness reporting. SPARC provided us with the data on investment in high-performance sport and medal

achievement so we could see the effect of investment on the number of medals achieved.

4.29 We have then used SPARC’s data to compile and produce Figure 13. It shows the cost-effectiveness of SPARC’s investments – the high correlation between investment and medals is clearly visible. To reflect inflation, the \$m/medallist indicators are stated in 2009 dollars.

**Figure 13**  
**Sport and Recreation New Zealand – cost-effectiveness of investing in Olympic sports**



4.30 Government investment in high-performance athletes, coaches, and systems and organisations for Olympic sports has increased the number of medals won at Olympic Games and World Championships. The unit cost of each medal has declined over eight years. Therefore, SPARC can claim that the cost-effectiveness (by medallist) of its investment improved between 2002 and 2006, and since then has been relatively steady. However, the graph is a simplistic view of achievement because there are other influences (such as advice, co-ordinators, and strategy) that contribute to the results. Also, it takes years to train a potential Olympic medallist or world champion so there is a time lag between investment and results.

- 4.31 Continuing to report this performance over time would assure SPARC, the Government, and the public about the cost-effective use of taxpayer funds.

### **Conclusions on measuring and reporting impacts, outcomes, and cost-effectiveness**

- 4.32 We acknowledge that measuring impacts and outcomes and assessing cost-effectiveness is difficult. Measuring only the inputs, outputs, and service standards provides part of the performance story. It is important to continue to measure these aspects because they form the foundation for more in-depth performance analysis. Public entities should also try to find ways to measure and report on their performance in terms of its contribution to achieving the desired outcomes.
- 4.33 We would like to see public entities focusing on their immediate impacts (and outcomes) – those that are a result of their unique set of activities – and putting in place means of monitoring and measuring their performance. A combination of the above will begin to provide a more informed view of the effectiveness of entities' current actions and strategies. Adding cost-effectiveness information will complete the picture, in terms of assessing the impact and value of services.
- 4.34 The examples discussed in this Part show the value of impact measurement and cost-effectiveness reporting for determining value for money in the services provided, and deciding when and how to intervene if the value or the impact is declining.
- 4.35 Insufficient cost-effectiveness reporting is not uncommon in the public sector. The challenge appears to be related to the clarity and definition of outcomes and the more immediate impacts that can be directly linked to each public entity's activities. The better defined the impacts and outcomes are, the more straightforward it is to determine how to report the cost-effectiveness of services provided or actions employed to achieve them.
- 4.36 Measuring impacts and assessing cost-effectiveness are important to provide assurance that value is provided to taxpayers, and that management decision-making is based on robust analysis. It is possible for most types of outputs to be measured for impact and cost-effectiveness, although there are significant challenges in achieving this for some outputs. However, given the value of measuring this over time, we consider it is something that public entities should try to do, and should consistently promote.



---

**Recommendation 3**

We recommend that public entities report on the impacts and outcomes that result from delivering their outputs.

---

**Recommendation 4**

We recommend that public entities analyse and evaluate their service performance, cost of service, and impact and outcome results to assess and report on cost-effectiveness.

---



## Part 5

# Analysing trends in performance

- 5.1 In Parts 3 and 4 of this paper, we discussed the need for entities to have measures that enable them to evaluate the efficiency and economy of their services and outputs, as well as the impact and outcomes (effectiveness) and cost-effectiveness of what they do.
- 5.2 In this Part, we look at the importance of thoroughly analysing annual report data, and the necessity of doing this over a long time to reveal and tell the performance story of an entity. A good performance story relies on appropriate performance measures, robust analytical and evaluation procedures to see what the data reveals, and communicating the responses and/or actions taken.

### Reasons for measuring over a longer time

- 5.3 A common practice in annual reports is to report the current year's performance in detail and, often, to provide comparative year(s) information.
- 5.4 Some entities choose to provide data for only the year they are reporting on, while others provide historical information and include some trend analysis. This, understandably, has led entities to focus primarily, and sometimes exclusively, on the most recent financial year. However, entities can include results from previous years to provide a picture of performance over time.
- 5.5 There are two main drawbacks to a focus on a single year. First, the highest-level objective of most public services is positive change. This might be a change in behaviour, such as reduced criminal offending or increased payment of fines, less smuggling of undeclared prohibited goods and people across New Zealand's borders, or improving the survival rates for small businesses. But these are big, nationwide systems and behaviours that entities are endeavouring, every year, to improve. Such changes can take years.
- 5.6 The impact of outputs often cannot be seen by looking at one or two years, but must be examined over five or even 10 years to see what is really resulting from public sector endeavours.
- 5.7 Under current annual reporting practices, to see the longer term picture the reader has to look at five or more annual reports to try to compare the data, and carry out their own analysis to determine the trends. Manually sorting through multiple documents is a labour-intensive activity that is likely to deter public interest in the performance of an entity.
- 5.8 The second drawback to focusing on only one or two years of performance data is that it does not provide the entity with strong management information on which

to base critical judgements about investment, operating models, or adjustments to strategies and actions. Again, too short a time span cannot reveal the trends of long-term change or the real effect of outputs.

### **Good management information should mean good performance reporting information**

- 5.9 We see no significant difference between good management information and good performance reporting information. For most critical aspects of output delivery, data should be provided and analysed over longer periods – more than five years – to assess the impacts and outcomes as a result of an entity's outputs.
- 5.10 One issue entities face in analysing data over longer periods is the constancy of the measures and indicators they use. This is not necessarily problematic because entities should be adjusting their measures when making changes to their operating models, strategies, or outputs, or simply to improve the quality of their measures.
- 5.11 Changes become problematic when they are too frequent, and constrain the reader's and the entity's ability to make comparisons and analyse performance over time. Such changes have the potential to undermine clarity and accountability.
- 5.12 Entities could overcome this by introducing changes to measures over time, showing two sets of measures and associated data for a transitional period or collecting data on new measures until a comparative picture has emerged. However, an entity needs to assess whether any costs of doing this are justified by the benefits to be gained.
- 5.13 Once longer-term data is available, the next important step is to ensure that it is properly analysed into useful information about performance.
- 5.14 The main difference between data and information is whether the raw material has been analysed and interpreted. Data that has not been analysed and interpreted is unlikely to hold the same value for the reader seeking to understand an entity's performance.
- 5.15 Ideally, an annual report should provide a clear picture of how an entity is performing, in language and focus that is relevant to its readers. There is very little value in burdening a reader with pages of data rather than information.
- 5.16 The following examples show the value of looking at performance over a longer time, and of seeking to understand what the numbers reveal about performance.

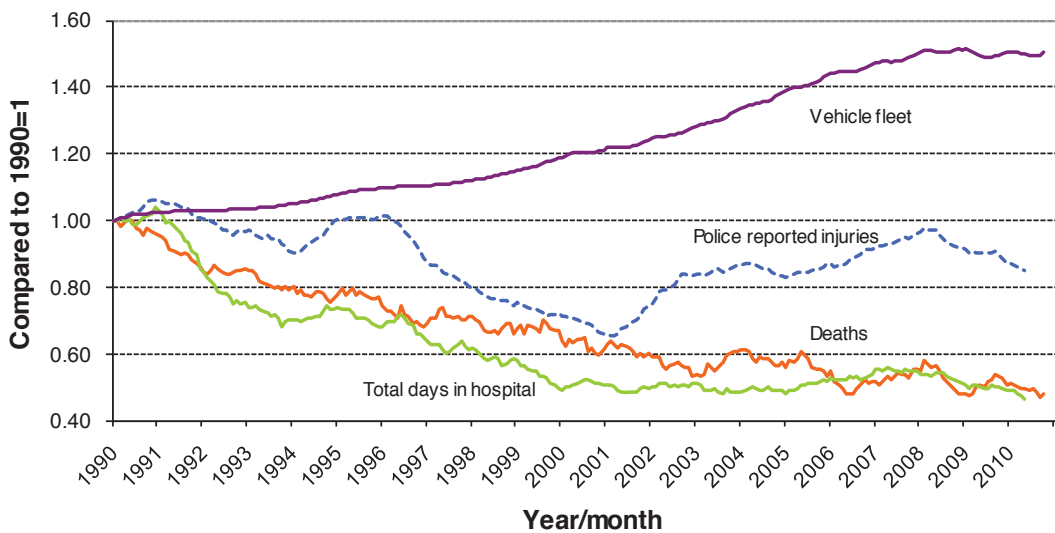
## Examples of measuring over a longer time

### Ministry of Transport

- 5.17 Figure 14 shows an example of long-term outcome data about road casualties and the size of the vehicle fleet. This is a good example of how looking at data over a longer time can reveal material changes and a successful system of public services.
- 5.18 Figure 14 is not featured in the annual report of the Ministry of Transport but is on its website.

**Figure 14**  
**Ministry of Transport – example of long-term outcome measurement (road crash casualties and the vehicle fleet)**

### Road crash casualties and vehicle fleet compared to 1990



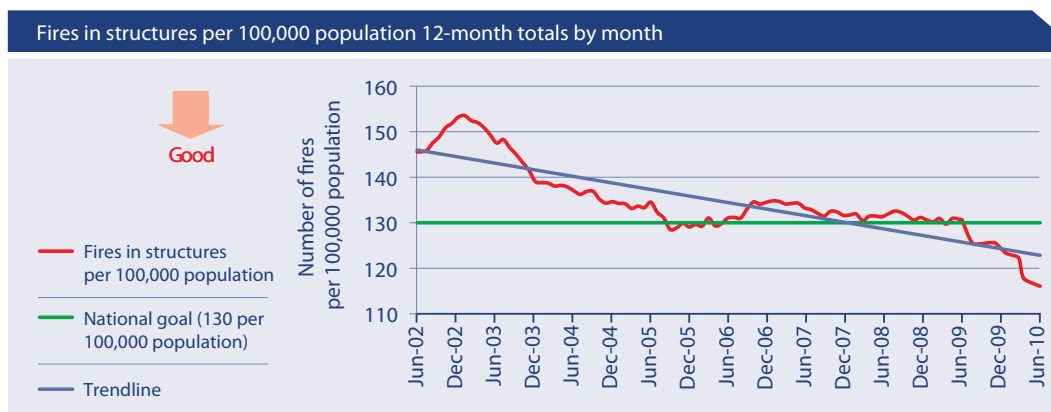
Source: [www.transport.govt.nz/research/Documents/Monthly-overview-of-NZ-road-crash-statistics-October-2010.pdf](http://www.transport.govt.nz/research/Documents/Monthly-overview-of-NZ-road-crash-statistics-October-2010.pdf)

- 5.19 If just one or two years of this data were available at a time, the reader would be able to see only that deaths in, say, 2010 were higher than in 2009 and injuries lower. It would not be possible to see the overall trend of declining deaths and days in hospital with the increasing size of the vehicle fleet.

## New Zealand Fire Service

- 5.20 In its 2009/10 annual report, the Fire Service provides a series of reports on its performance against its long-term goals. For example, the Fire Service reports on the numbers of fires in structures for every 100,000 people in the population (see Figure 15).

**Figure 15**  
New Zealand Fire Service – example of long-term trend information



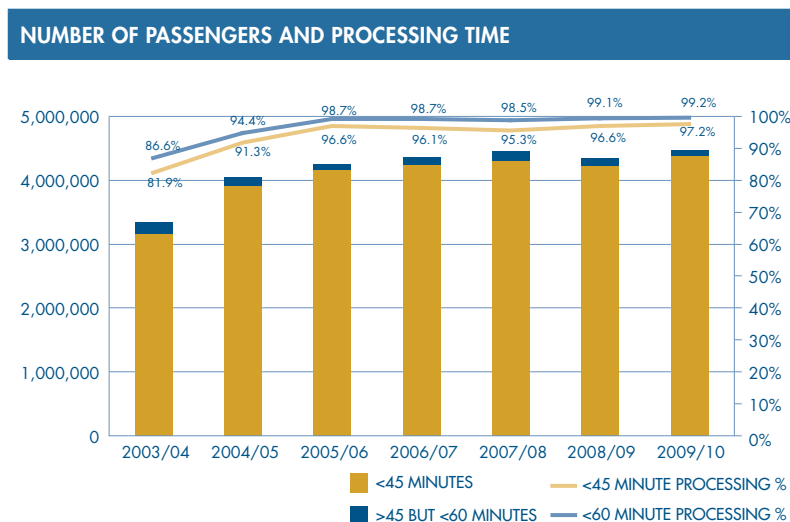
Source: New Zealand Fire Service Commission, *Annual Report 2009/10*, page 20.

- 5.21 Figure 15 shows the trend over eight years of decreasing numbers of fires compared with the national goal. Including all eight years lets the reader see the period of relative stability in fire incidence and that a further downward trend began in 2010.
- 5.22 The Fire Service's annual report also provides similarly presented data on different types of fires, fatalities and injuries, property damage, and response times. Overall, this provides an excellent picture of "the business" of the Fire Service and its performance against its main goals.
- 5.23 Similar to the earlier example about road crash casualties, if the fire data showed just the current year and the previous year, a reader could determine only whether the performance was positive compared with the previous year. We would not be able to see the overall trend over time. The reader might also believe the incidence of fires to be quite high at between 110 and 130 each year because the reader would not see that the incidence of fires was more than 150 eight years ago. The incidence of fires could still be quite high even though there is a declining trend. Long-term term analysis and benchmarking with similar countries is very important to understanding the performance story and to making judgements about performance.

## New Zealand Customs Service

- 5.24 In its 2009/10 annual report, Customs provides data on the number of passengers and Customs' processing time over seven years – enough to gain an insight into how performance is changing (see Figure 16).

**Figure 16**  
New Zealand Customs Service – trends in time taken to process passengers



Source: New Zealand Customs Service, *Annual Report 2008/09*, page 38.

- 5.25 Figure 16 shows the reader that the number and percentage of passengers processed within a 45-minute and 60-minute timeframe is increasing. This is a measure of service performance, not an impact or outcome, but is nevertheless more useful than the current year's performance data alone.

## Example of analysing performance data

### New Zealand Customs Service

- 5.26 Figure 17 shows how Customs presented its output class results in its 2009/10 annual report. Customs has recently revised its output classes and no longer presents information using the output class and measures that follow. Nonetheless, we have included this example because it shows how a set of costs and performance measures can convey limited information and that entities should think about the analysis and explanation of their data, not just its presentation.

**Figure 17**  
New Zealand Customs Service - presenting output class expenditure

### OUTPUT CLASS – PROSECUTIONS AND CIVIL PROCEEDINGS

*Scope of appropriation:* The prosecution of offences and civil proceedings relating to the hearing of applications for the release of seized goods.

COST (FIGURES ARE EXCLUDING GST)				
30/6/09		30/6/10		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
	<b>Revenue</b>			
693	Crown	1,035	1,084	727
16	Other	19	10	17
709	TOTAL REVENUE	1,054	1,094	744
701	EXPENSES	982	1,094	744
8	SURPLUS/(DEFICIT)	72	–	–

### PERFORMANCE

The prosecutions undertaken by Customs range from indictable prosecutions for the importation of controlled drugs or objectionable material to summary prosecutions for the importation of a variety of prohibited items, the evasion of duty, or the contravention of other provisions of the Customs and Excise Act 1996 and other relevant legislation.

The results of other investigations are provided to New Zealand Police to undertake the prosecution.

PERFORMANCE MEASURES AND STANDARDS				
2008/09		2009/10		
ACTUAL	MEASURE	ACTUAL	STANDARD	VARIANCE
New measure	All prosecutions conducted in accordance with the Solicitor-General's guidelines for prosecutions	Yes	Yes	–
New measure	Other resolutions are administered in accordance with legal requirements and relevant professional guidelines	Yes	Yes	–

Source: New Zealand Customs Service, *Annual Report 2009/10*, page 51.

- 5.27 In this example, the reader needs to refer to other sections of the annual report to understand the context of the costs and performance for this output class. The reader has to do more work, looking at previous annual reports, to understand the performance trend.



- 5.28 We decided to bring together six years of data from five of Customs' annual reports to see what expenditure trends were visible (see Figure 18). The data and its presentation were consistent for all five years, which helped our analysis.

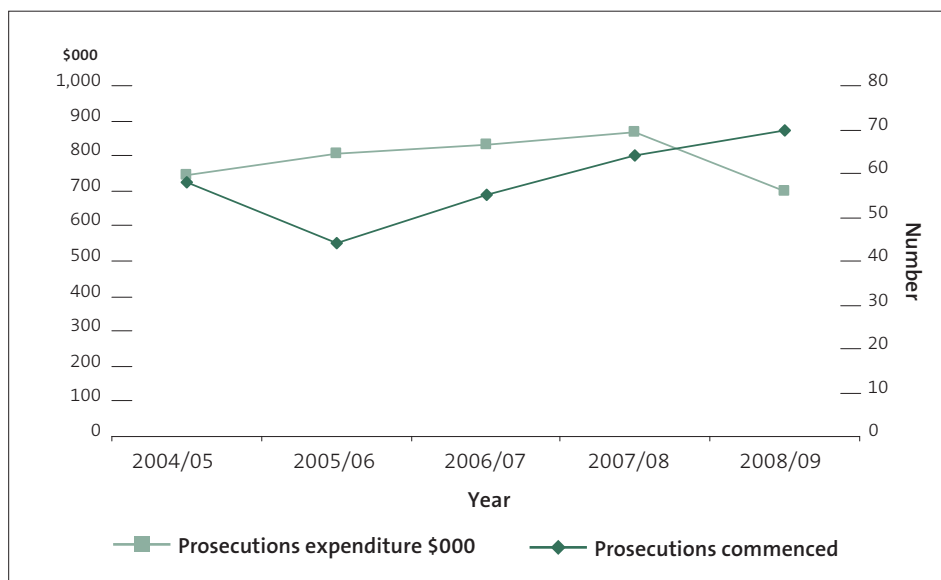
**Figure 18**

**New Zealand Customs Service - output class expenditure for prosecutions and civil proceedings over five years**

Output class	2004/05	2005/06	2006/07	2007/08	2008/09
Prosecutions and Civil Proceedings	\$746,000	\$804,000	\$834,000	\$866,000	\$701,000

- 5.29 Although there has been some movement in expenditure in this output class, the overall trend is of significant reductions – some 6% between 2004/05 and 2008/09. However, what this reveals is still limited and raises questions such as:
- Is the reduction the result of volume reductions in workload?
  - Is Customs taking on fewer prosecutions?
  - Has Customs made efficiency improvements?
  - Has this affected the results of its prosecutions?
- 5.30 We have added another layer to the analysis by bringing the expenditure data on Customs' prosecutions together with the volume data contained in annual reports. The performance story becomes richer.
- 5.31 Given that the total expenditure on prosecutions has declined and the annual number of prosecutions started has increased, the unit cost of a prosecution declined 22% between 2004/05 and 2008/09 (see Figure 19).

**Figure 19**  
**New Zealand Customs Service - spending and outputs for prosecutions and civil proceedings over five years**



- 5.32 Customs’ annual reports also show that the success rate of prosecutions is higher than 95% and there is no adverse judicial comment on Customs’ cases. Therefore, a reader could conclude that taxpayers are getting an efficient service from Custom’s prosecution services.
- 5.33 Our exercise of bringing together five years<sup>12</sup> of data and several sets of discrete information shows that a lot more could be told about a public entity’s performance story. However, the exercise required much work and the performance story is incomplete because we do not know how Customs has achieved the improvements.

### Conclusions on analysing trends in performance

- 5.34 Looking at performance over longer periods enables an assessment of the impact of different events, changes in practices or policies, and the difference any interventions adopted by the entity might be making. Or it could reveal improving or declining performance that needs to be addressed.
- 5.35 The PFA, CEA, and generally accepted accounting practice do not require this longer-term view, but they do not preclude it. We hope that many entities are monitoring their own performance over longer periods and using this internally as part of their management information and in their decision-making. If this is so, and the data is already available, there is no reason why it should not be included

<sup>12</sup> In its 2009/10 annual report, Customs did not report the number of prosecutions started.

in annual reports. If this is not so, and longer-term analysis is not taking place, senior managers may not be getting the information they need to support sound and long-term decision-making.

- 5.36 Senior managers should consider establishing their own process for managing change in the measures and indicators used, so that changes do not compromise their ability (or that of the public) to establish a view of performance and effectiveness in achieving outcomes over the longer term.
- 5.37 As part of providing a longer-term picture of performance, public entities should be providing accurate analysis and commentary of their results, not just presenting their results as numbers. Without analysis and commentary, a reader can make uninformed judgements about a public entity's performance.
- 5.38 In our view, public entities should provide more thorough analysis of their results, delving deeper into what the data is telling them, and using what they find to improve their own performance. At a minimum, all public entities should be comparing results to forecasts, comparing annual results to their previous results, outlining what were the causal factors in any changes, explaining why variances occurred, and outlining what they plan to do differently as a result. This type of analysis and reporting should improve the usefulness of information provided to Ministers and to the public.
- 5.39 Ideally, a longer-term view with a greater depth of analysis attached would see public entities revealing their real performance story in a positive way - promoting improvements in their own and the public's understanding of their business.

---

#### **Recommendation 5**

We recommend that public entities identify services and results (costs, outputs, impacts, and outcomes) that would benefit from longer-term (5-10 year) trend analysis and report that analysis, supported with commentary, in their annual reports.

---



# Glossary

**Cost-effectiveness** is the relationship between the level of resources used (costs) and progress toward a predetermined outcome (effect). The terms “cost-effectiveness” and “interventions” are not formally defined in legislation or specifically required, except by the Public Finance Act 1989, so a broad interpretation should be taken consistent with the expectation that the major activities that entities carry out add real value at a reasonable cost. Assessing cost-effectiveness, and identifying cost-effectiveness intentions, involve entities tracking performance over time to allow readers to understand whether the costs of services are justified by the impact and outcome results produced.

**Dimensions of performance** are the aspects or properties of performance that a particular performance measure can address. They include, but are not limited to, quantity, quality, timeliness, location, and cost.

**Demand-driven** means a result or reaction as the need arises and in response to factors external to the entity (for example, demand from customers). Demand-driven matters can be planned for but they cannot be controlled by the entity. They are useful for understanding the context that resulted in the performance achieved rather than for assessing whether the entity has successfully achieved performance intentions.

**Elements of non-financial performance reporting** include inputs, outputs, impacts, and outcomes, which can be measured for the purpose of reporting and assessing the entity’s performance.

**Impacts** are the contributions made to an outcome by a specified set of outputs. Often referred to as “intermediate outcomes”, they represent the relatively immediate or direct effect on stakeholders of the entity’s outputs.

**Main measures** are the medium-term (at least three-year) measures the entity uses to assess and report on its impacts, outcomes, or objectives, and the cost-effectiveness of its interventions. Main measures can cover the entity’s organisational health and capability to perform its functions and conduct its operations effectively, and any other matters necessary to understand its operating intentions and, for government departments, direction specified by their Minister.

**Objectives** are not defined in the Public Finance Act 1989 so have the ordinary meaning of “goals” or “aims”. The inclusion of “objectives” in the Crown Entities Act 2004 alongside “impacts” and “outcomes” recognises that not all outputs and activities are intended to achieve “outcomes” as that term is defined below. Some outputs and activities do not target a direct societal, economic, or environmental

effect, and their effectiveness should not be judged on that basis. Nevertheless, they can be important in the context of an entity's performance, and objectives will feature in the shaping of some entities' results-focused planning.

**Outcomes** refer to changes in the state of, condition of, effects on, or consequences for the community, society, economy, or environment resulting from the operations of the reporting entity.

**Output classes** are groups of outputs of a similar nature.

**Outputs** are the goods and services produced by the entity. The term refers only to the goods and services produced for third parties. It excludes goods and services consumed within the entity (such as services provided by legal, research, human resource, or information technology functions to other functional areas within the same entity, which are often referred to as "internal outputs").

**Performance** means how well an entity performs against its objectives. It is a comprehensive concept because performance can relate to a wide range of elements, such as outcomes (including impacts or other intermediate-level outcomes), outputs, inputs, and capability. Performance may also be expressed in relational terms, such as efficiency (that is, relationship of inputs to outputs) or effectiveness (that is, relationship of outputs to outcomes).

**Performance measures** are the specific criteria or means used to measure performance (most commonly of output production and achievement of impacts and outcomes). They may be expressed as (but are not limited to) absolute numbers, percentages, ratios, point estimates, or ranges. They may also be qualitative in nature.

**Performance standards** or **targets** are the specific levels of performance (usually relating to outputs produced and outcomes achieved) that the entity aims to meet.

**Readers** are people who rely on the published (that is, external) general purpose reports as their major source of financial and non-financial information about an entity. For this purpose, readers are assumed to have a reasonable knowledge and willingness to study the reported information.

**Service performance reports** are reports to readers that provide primarily non-financial information that records the output delivery performance of an entity against specified measures and targets. This information is usually shown in statements of service performance (or equivalent reports) and is compared with information contained in forecast non-financial performance reports. Service performance is concerned not only with how well services are delivered (output

delivery performance) but also with how effective the services are at achieving the entity's objectives (achievement of impacts and outcomes). Therefore, service performance reports should provide some link to impact and outcome information. For the purpose of published, statutory accountability reports, service performance reports typically comprise:

- a medium-term component that incorporates an outcome-oriented statement of intended or actual achievements, which should include information on the entity's objectives, outcomes, impacts, and operating intentions, together with related performance measures and targets and other information required by legislation and generally accepted accounting practice; and
- an annual component that incorporates a service performance report (often referred to as a statement of service performance), which is an output-oriented statement of forecast or historical service (that is, output) delivery, together with related performance measures and targets and other information required by legislation and generally accepted accounting practice.

A **Statement of Intent** is a medium-term forecast intended to promote the public accountability of a Crown entity to the Crown and Parliament, and provide a base against which the Crown entity's actual performance can later be assessed.

A **Statement of Service Performance** reports on the extent to which intended levels of service and service performance were met during the financial year. It must:

- be prepared in accordance with generally accepted accounting practice;
- describe each class of outputs supplied by the entity during the financial year; and
- include, for each class of outputs:
  - the standards of delivery performance achieved by the entity, compared with the forecast standards included in the statement of forecast service performance at the start of the financial year; and
  - the actual revenue earned and output expenses incurred, compared with the expected revenue and proposed output expenses included in the entity's statement of forecast service performance at the start of the financial year.









# Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Progress in delivering publicly funded scheduled services to patients
- Final audits of Auckland's dissolved councils, and managing leaky home liabilities
- Statement of Intent 2011–14
- Review of the Northland Events Centre
- Public entities' progress in implementing the Auditor-General's recommendations
- Ministry of Social Development: Managing the recovery of debt
- Local government: Results of the 2009/10 audits
- The Auditor-General's Auditing Standards
- Central government: Results of the 2009/10 audits (Volume 2)
- Provision of billboard for Len Brown's mayoral campaign
- District health boards: Learning from 2010–13 Statements of Intent
- Central government: Case studies in reporting forecast performance information
- Matters arising from Auckland Council's planning document
- Central government: Results of the 2009/10 audits (Volume 1)
- How the Department of Internal Affairs manages spending that could give personal benefit to Ministers
- Sport and Recreation New Zealand: Improving how it measures its performance
- Department of Internal Affairs: Administration of two grant schemes

## Website

All these reports are available in HTML and PDF format on our website – [www.oag.govt.nz](http://www.oag.govt.nz). Most of them can also be obtained in hard copy on request – [reports@oag.govt.nz](mailto:reports@oag.govt.nz).

## Mailing list for notification of new reports

We offer a facility for people to be notified by email when new reports and public statements are added to our website. The link to this service is in the Publications section of the website.

## Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

Office of the Auditor-General  
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500  
Facsimile: (04) 917 1549

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
[www.oag.govt.nz](http://www.oag.govt.nz)