

6 May 2019

Mr David Thodey AO  
Chair  
The panel for the review of the Australian Public Service  
Department of the Prime Minister and Cabinet  
PO Box 6500  
Canberra ACT 2600

Via email: [apsreview@pmc.gov.au](mailto:apsreview@pmc.gov.au)

Dear Mr Thodey

## **Independent review of the Australian Public Service: Interim report**

Governance Institute of Australia (Governance Institute) is the only independent professional association with a sole focus on whole-of-organisation governance. Our education, support and networking opportunities for directors, company secretaries, governance professionals and risk managers are unrivalled.

Our members have primary responsibility to develop and implement governance frameworks in public listed, unlisted and private companies, as well as not-for-profit organisations (NFPs) and the public sector. Governance Institute is a national provider of governance training.

We welcome the opportunity to provide feedback on the Interim report of the Independent review of the Australian Public Service (APS). We provided a submission on the independent review on 31 July 2019.

We commend the independent panel for highlighting the importance of strengthening the culture, governance and leadership model of the APS and support the proposed role of the secretaries' board in improving the quality of performance reporting across the service. We agree with the panel on the importance of measuring outcomes and performance in boosting accountability and trust in the service.

### **Importance of performance management**

Internationally, and across Australia, public sector entities have not always succeeded in adopting good overall performance measures which are linked to the key strategic outcomes determined by the governing body or key stakeholders such as the portfolio Minister.

Recent experience in Australia (see the 2013 report of the Australian National Audit Office and the report of the Independent review of the Australian Public Governance, Performance and Accountability Act, September 2018) and the US (*'Managing for results – Government action needed to improve agencies use of performance information in decision making'*, United States Government Accountability Office, September 2018) suggests that the drive by Governments to achieve improvements in performance management by public sector enterprises has stalled.

In 2013, the Australian National Audit Office reported that:

*'Our audit reports and the Pilot show it is time for greater attention, investment and resourcing to be given to the quality and integrity of KPIs used by public sector entities to inform decisions about the performance of government programs.'*

We note the recent findings of the review panel, that the APS needed:

*‘Transparency around performance expectations and management of secretaries, This could include clear criteria on the basis for performance and evaluation, and measures linked to legislated responsibilities, government and ministerial priorities, and departmental and service-wide outcomes.’*

Most public sector entities in Australia use data sets or metrics to measure the performance of the entity and as the basis or reporting to stakeholders. The use of such metrics is often based on the belief that counting many things will motivate improved performance. This is not always the case. We consider that performance management using detailed data sets can often distract boards and management from focussing on the key strategic issues confronting the entity. Rather than gathering a myriad of metrics about (often) minor activities unrelated to the board’s ultimate objectives, there needs to be a real focus at the board level on metrics that matter to the prosperity and effectiveness of the enterprise. These form the Key Performance Indicators (KPIs).

We consider that it is good governance for an organisation to have a performance management system that contains the following elements:

- a focus on a systemic approach to measuring performance linked to objectives, goals and strategies of the organisation
- the use of metrics within an appropriately structured framework which are based on accurate and reliable data
- a process to measure and evaluate performance changes over time
- a plan to improve an organisation’s effectiveness and efficiency
- demonstrated links to the risk management framework and other key control systems
- provision to contain both financial and non-financial metrics, including those relating to input costs, processes, outputs and outcomes
- reflects consultation with employees and stakeholders
- transparent and timely public reporting on the progress towards achieving results
- use of metrics that illustrate and analyse changes in performance and outline remedies where goals are not achieved within predetermined time lines
- supports the ongoing promotion of a positive performance culture across the organisation.

Governance Institute has recently reviewed its guidance in KPI’s to include a discussion on the important features of an effective performance monitoring and management system and we **attach** this good governance guide to this submission.

We welcome the opportunity to engage further with the review panel and elaborate on any of these issues.

Yours sincerely



Megan Motto  
CEO  
Governance Institute of Australia

The success of an organisation is important to the interests of its stakeholders. The governance of an organisation is improved by having in place systems that effectively and efficiently manage, monitor and report to stakeholders regularly on the organisation's performance.

It is **good governance** for an organisation to have a performance management system that has the following elements:

- a focus on a systemic approach to measuring performance linked to the organisation's objectives, goals and strategies
- the use of metrics within an appropriately structured framework which are based on accurate and reliable data
- a process to measure and evaluate performance changes over time
- a plan to improve an organisation's effectiveness and efficiency
- demonstrated links to the risk management framework and other key control systems
- provision to contain both financial and non-financial metrics, including those relating to input costs, processes, outputs and outcomes
- reflects consultation with employees and stakeholders
- transparent and timely public reporting on the progress towards achieving results
- use of metrics that illustrate and analyse changes in performance and outline remedies where goals are not achieved within predetermined time lines
- supports the ongoing promotion of a positive performance culture across the organisation.

### Key performance indicators

Within the organisation there should be a range of key performance indicators (KPIs).

KPIs are measures, preferably quantifiable, that focus on the achievement of outcomes critical to the current and future success of an organisation. Once an organisation has analysed its mission, identified all its

stakeholders, and defined its goals, it needs a way to measure progress toward those goals. KPIs therefore need to be open to independent measurement and verification, and accuracy is important. KPIs evolve with internal and external changes impacting the organisation, including risks to success.

An effective and accountable public sector requires clarity as to its objectives, to enhance the activities of government agencies and departments and to improve the delivery of goods, services and programs. When the public sector is arranging the provision of services through third parties, the management of complex collaborative relationships with private contractors, regulated industries, not-for-profit agencies, and other levels of government for the effective implementation of public policy must also be measured.

It is **good governance** for an agency to articulate its key results areas, whether these are set by agreement with the Minister or board or are contained in a service charter, and whether these are financial (for example, reporting against funding obligations) or non-financial. Key results areas may not always be easily quantifiable. Qualitative outcomes may be difficult to measure. However, governments will be seeking to gain stakeholder understanding of the achievement of public policy through reporting against key results areas.

Public sector agencies should:

- establish both long and short-term KPIs (as a first step, clarify whether KPIs are imposed by legislation or determined by the agency)
- cascade throughout the organisation knowledge and understanding of the legislative or other prescribed requirements for performance indicators of the agency and the accountability within the agency for their achievement
- determine whether there is other legislation, apart from the enabling legislation, against which it needs to report (for example, anti-discrimination legislation, freedom of information legislation)
- clarify the purpose of the KPIs.

## Purpose

A public sector agency needs to clarify if its KPIs are internal or will be made available to the public. In each case, the purpose of a KPI must be meaningful and relevant to both the organisation and its stakeholders, as the primary purpose of KPIs is accountability. To this end, KPIs need to be expressed clearly and concisely, and in a manner that can be understood. As the term suggests, KPIs should be higher-level markers of performance in key results areas. Too many KPIs can defeat the purpose of measuring progress towards the goals of the agency.

A primary purpose of KPIs is accountability for the achievement of strategic objectives and improving performance. To be purposeful, KPIs must relate to these goals and strategic objectives. Some agencies have specific statutory objectives and the KPIs need to align with those. They are often linked to individual performance agreements in order to cascade accountability through the organisation. Performance against agreed goals is then reported back up through the organisation.

It is **good governance** for an agency to ask itself whether its KPIs are useful. It is also good governance for an agency to clarify what the KPIs are intended to measure, and whether what is being measured is aligned with the strategic objectives of the organisation. For example, are they intended to be a measure of progress against any of the following?

- fulfilment of legislative KPIs
- reporting to the board on organisational performance
- reporting to stakeholders in the annual report
- reporting to the Minister on implementation of a Ministerial direction to undertake a program
- fulfilling an agreement between the agency and the Head of a department
- fulfilment of a CEO and/or senior executive performance
- management reporting, or
- fulfilling a performance agreement on socially responsible outcomes.

## The role of KPIs in a performance monitoring and management system

KPIs should be quantifiable if possible. One way this can be achieved is by developing metrics that are evidence of improvements. For example:

- an increase in positive responses from the community in stakeholder surveys
- a reduction in the number of complaints.

It is important that KPIs have challenging but achievable targets which are realistic, transparent and tied to strategic outcomes. They are not simply the performance or delivery of normal duties. Implementing challenging targets for KPIs creates a duty for leadership to improve performance delivery of required outputs and outcomes.

Benchmarking against similar organisations can assist in identifying suitable KPIs and considering whether they are measurable and meaningful.

## External review

External review of KPIs and performance against them is common, and can be either undertaken formally or informally. Formal review of the performance of agencies may either take the form of an inquiry by Parliament or Parliamentary Committee or audit by the Auditor-General at either the Commonwealth or State level who may make a judgment on whether the agency performance system is appropriate and captures meaningful information. Informal review of the performance against KPIs may also be undertaken by stakeholders themselves or by the media.

## Measurement

It is **good governance** for an agency to clarify how it will measure progress against KPIs and in what form progress can be measured.