



Public Accounts Committee

Key Performance Indicators

Report No. 17
October 2012

Legislative Assembly
Parliament of Western Australia

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Presented by

Hon J.C. Kobelke, MLA

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Chair's Foreword

Under section 85 of the *Financial Management Act 2006* (FMA), the Treasurer is required to initiate a review of the FMA as soon as is practicable after the fifth anniversary of its commencement. The Public Accounts Committee recently received an invitation from the Treasurer to make a submission to the review.

Section 61(1)(b) of the FMA requires all government agencies to report Key Performance Indicators (KPIs) at the end of each financial year. In 2009, the Economic Audit Committee recommended that the requirement for all agencies (including central agencies) to report against KPIs be reviewed. Given that there has been some interest in the question of the usefulness or otherwise of KPIs, we formed the view that we were in a position to make a useful contribution to the debate, particularly in the context of the review of the FMA.

During the normal course of the Committee's business we often have reason to give consideration to individual agency KPIs and have had reason to seek clarification of some KPIs in the past.

In summary, we are of the view that KPIs remain a useful and important tool for reporting on agency performance, but that their usefulness is limited by a number of factors including poor agency understanding of what should be measured, inconsistent approaches to measurement and a 'one size fits all' approach in the development of KPIs that fails to take account of the unique requirements of each agency.

We believe that KPIs should continue to be mandated for all agencies. Where necessary, agencies should be assisted to improve the standard of their KPIs to ensure they are appropriate, meaningful and useful in measuring key agency outcomes.

HON J.C. KOBELKE, MLA
CHAIR

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Committee's views on KPIs

The intent behind the use of KPIs is sound

Key Performance Indicators (KPIs) can provide an important service to the general public and government as they provide a mechanism for measuring and reporting agency performance. They are an important element of open and accountable government, particularly given that agencies are required to report their performance against KPIs in annual reports.

Their usefulness is not simply limited to members of the general public. The development and use of KPIs should encourage agencies to think critically about the services they provide to the community. Treasurer's Instruction 904 makes clear that agencies should use KPIs to understand their own performance, facilitate strategic planning, enhance resource management and highlight areas for improvement.

We are aware that agencies do not always see the value of the KPI process and there is a danger that agencies simply develop and report on KPIs in order to satisfy a regulatory and/or legislative requirement. It seems likely that agencies are missing the opportunity to gain insights into their own performance because they do not give the development of KPIs the importance they otherwise deserve.

Many agencies misunderstand KPIs

Agencies are required to report on the outcomes that they achieve during the reporting period. The Treasurer's Instructions defines outcomes as the 'effect, impact, result on or consequence for the community, environment or target clients of government services'. Many agencies confuse outcomes for outputs and often the distinction between outputs and outcomes for some agencies can become blurred.

It seems reasonable to suggest that sometimes outputs might well be the most appropriate way in which agencies can report on their effectiveness at delivering services. Since the 1980s, Western Australian Government agencies have been moving away from reporting outputs and are now required to report on outcomes. This requirement to use outcomes might be a symptom of the 'one-size fits all' approach to KPIs that has been adopted under the current KPI framework.

There is also a danger that agencies will mistake 'mission statements' for KPIs. This probably comes about because some agencies will struggle to identify issues for which they are the sole variable in the outcome that they are seeking to measure. The

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Department of Local Government (DLG), for example, has identified the following as one of its outcomes:

A Western Australian public sector which practises the principles of multiculturalism and the empowerment of culturally and linguistically diverse communities to fully participate in Western Australian life.

Although we are not commenting on the outcome itself, it is important to consider the extent to which DLG can wholly (or even significantly) impact upon the achievement of this outcome. There are also questions to be raised about how this outcome can be measured and, ultimately, whether it is particularly meaningful.

Measurement matters

DLG measures the outcome described above by surveying ‘customers’. In general, these surveys should be considered problematic because of their variability: they survey opinions of shifting cohorts and it is difficult to form any kind of control against which performance can be tracked from one year to the next. As shown in the table below, there was significant shift in the performance of DLG against this measure between 2010–11 and 2011–12:

Proportion of Public Sector agencies that accept and practise the principles of multiculturalism:	2010–11	2011–12
• Perception of public sector agencies	43 per cent	76 per cent
• Perception of culturally and linguistically diverse community groups	66 per cent	89 per cent

DLG itself admits that the significant increase was not the result of a measured improvement in the effectiveness of the agency’s delivery of the outcome; rather DLG changed the survey methodology employed when gathering responses. The result meant that different questions were asked and different ‘customers’ were surveyed.

Another problem identified with measurement by agencies of their performance (this time by the Auditor General) is that in some cases, there is a mismatch between the measurements that an agency uses and what it purports to be measuring or the measurement and its demonstration of what the agency is achieving.

The ‘one size fits all’ approach causes problems

The Auditor General spoke at some length about the problems caused by a one size fits all approach in his recent report examining the use of KPIs in the public sector. We would reiterate his comments and note that the current approach is problematic as it does not give regard to critical factors such as agency size and the varying nature of agency business. This further distorts KPI reporting in some agencies.

Revealing useful information

We recently wrote to the Department of Mines and Petroleum (DMP) seeking additional information on the following KPI:

Responsible development of mineral and energy resources and protection of the community from the risk of dangerous goods.

This is an important KPI, and we were particularly interested in the result for the following specific measure:

Percentage compliance identified in completed environmental activities.

According to DMP's 2010–11 Annual Report, fully 98 per cent of mine sites inspected were found to be compliant following environmental compliance investigations. We sought additional information on this outcome and were informed that during the period, there were three major non-compliances and 86 minor non-compliances from a total of 184 inspections. Major non-compliance refers to instances where the mine proponent was issued with a Direction to Modify, Stop Work Order, fine in lieu of forfeiture or warning letter. A minor non-compliance arises where proponents are required to implement preventative or corrective actions outlined in DMP's compliance inspection report.

The experience with this KPI reveals that the way in which information is presented is important. Achieving only three major non-compliances during the reporting period is a positive achievement and it is one that should be reported; however, the manner in which the KPI has been reported by DMP reveals only half the story – nearly 50 per cent of inspected mine sites were non-compliant in some manner.

If KPIs are to fulfil their key role and provide accurate information about agency performance, then the manner in which that performance information is presented to the public should reflect actual performance. All too frequently, statistics can be massaged to divert attention from areas of concern.

The Outcomes Structure Review Group

At present there is no central body approving KPIs or scrutinising proposed changes. The validity and reliability of the KPI process needs to be enhanced and comprehensively tested and confirmed. Prior to 2009, an interagency group, the Outcomes Structure Review Group, used to review proposed new and changed KPIs and recommended their approval to Treasury.

Consideration should be given to re-establishing this body.

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Committee recommendation

Finally, it would be our recommendation that the government retain the mandatory requirement for KPIs for central and other non-service agencies and that support systems be established to assist with making KPIs more relevant and meaningful.

HON J.C. KOBELKE, MLA
CHAIR

Appendix One

Committee's functions and powers

The Public Accounts Committee inquires into and reports to the Legislative Assembly on any proposal, matter or thing it considers necessary, connected with the receipt and expenditure of public moneys, including moneys allocated under the annual Appropriation bills and Loan Fund. Standing Order 286 of the Legislative Assembly states that:

The Committee may -

- 1 Examine the financial affairs and accounts of government agencies of the State which includes any statutory board, commission, authority, committee, or trust established or appointed pursuant to any rule, regulation, by-law, order, order in Council, proclamation, ministerial direction or any other like means.
- 2 Inquire into and report to the Assembly on any question which -
 - a) it deems necessary to investigate;
 - b) (Deleted V. & P. p. 225, 18 June 2008);
 - c) is referred to it by a Minister; or
 - d) is referred to it by the Auditor General.
- 3 Consider any papers on public expenditure presented to the Assembly and such of the expenditure as it sees fit to examine.
- 4 Consider whether the objectives of public expenditure are being achieved, or may be achieved more economically.
- 5 The Committee will investigate any matter which is referred to it by resolution of the Legislative Assembly.