December 2018

TPP

18-09

Policy and Guidelines Paper

Outcome Budgeting

Preface

Outcome Budgeting recognises that the allocation of public resources should be based on the outcome achieved for people, not the amount spent or the volume of services delivered, and budget decisions should be made on that basis.

Outcome Budgeting provides a common framework -- for reporting to citizens, for managing agency resources and for decision making by the government. Using a common framework will ensure budget decisions focus on delivering best outcomes and that agencies manage and deliver outputs that support those outcomes. This approach promotes consideration of total spend, rather than incremental or new spend, and an emphasis on performance.

As a first step, the NSW Government has adopted 46 State Outcomes covering all activities delivered by the NSW Government. State Outcomes are clear statements of what the Government is seeking to achieve for the people of New South Wales. An outcome focus will drive a broader conversation on different options, new partnerships and alternative ways of delivering services to achieve results. Outcome Indicators associated with each State Outcome show the progress that Government is making to achieve these outcomes.

This policy provides guidance on developing and maintaining the framework that underpins each State Outcome and also provides details on financial and non-financial requirements for performance reporting purposes.

The Outcome Budgeting framework has been formulated following extensive consultation with all clusters and relevant stakeholders and this policy paper reflects the results of that collaboration.

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Note
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Purpose of the paper

This paper will:

- Define Outcome Budgeting as applied in the NSW General Government sector and explain the Outcome Budgeting Framework;
- Describe the components of the Outcome Budgeting Structure required to be created and the supporting information to be collected and maintained by NSW agencies; and
- Outline how periodic performance monitoring will be incorporated into financial monitoring procedures

This paper is comprised of two parts:

- The Outcome Budgeting Framework and Outcome Structure Guidelines; and
- The Performance Monitoring for Outcome Budgeting Guidelines.

The first part of the paper will provide:

- Guidance on developing and maintaining Outcome Structures including State Outcomes, Outcome Indicators, Program Groups, Programs and Program Performance Measures; and
- Guidance on changing Outcome Structures and associated information.

The second part of the paper will provide details on:

- Financial and non-financial requirements for performance reporting purposes; and
- Outcome conversations.

Glossary

Baseline	Baseline is a clearly defined starting point. For an existing outcome indicator or program performance measure it is the actual value for the twelve-month period ending in financial year 2016-17. For a new measure it is the actual value during the first year of data collection.
Evidence Bank	The Evidence Bank is a database of summarised performance information including form pre-implementation business cases and post-evaluations.
Forecast	The forecast annual figure of an Outcome Indicator and/or Program Performance Measure, at the end of the financial year.
State Outcome	A State Outcome means the primary purpose for which Budget funding is being expended, which clearly explains to the public the goal that a sub-national government is seeking to achieve for its citizens.
Outcome Assessment	Outcome Assessment will be a comprehensive and in-depth process to assess performance of State Outcomes and Programs. Assessments are proposed to: review how outcomes are being achieved, evaluate effectiveness of Programs within each Outcome, assess alternative evidence-based strategies, programs or service delivery arrangements, and identify process efficiencies and savings in total base budget spend on Outcomes.
Outcome Indicator	An Outcome Indicator for a State Outcome is a measure of effectiveness that can reasonably demonstrate to the public the performance of the government in achieving the specific State Outcome.
Program	A Program is the collection of activities, tasks, divisions or functions of an agency, to deliver specific outputs that contribute towards achieving a State Outcome.
Program Group	A Program Group is an administrative mechanism to hold together all relevant and related Programs that specifically contribute towards a State Outcome.
Program Performance Measure	A Program Performance Measure is a quantitative or qualitative measure of Program performance that is used to demonstrate change, and that details the extent to which Program results are being or have been achieved.
Target	A target is the desired level of performance for an Outcome Indicator and/or a Program Performance Measure that is expected to be attained on or before a defined period. This should include a specific value and period.

Introduction to Outcome Budgeting

Outcome Budgeting was announced as a reform initiative in the 2017-18 Budget. The intention is to transform the way budget decisions are made, and resources are managed in the NSW public sector. The overarching objective of Outcome Budgeting is to shift the focus of the NSW Government to deliver better outcomes for the people of NSW with increased transparency, accountability and value for tax payer dollars.

Traditionally, the focus of budget decisions has been on the additional programs, services and infrastructure announced in each Budget i.e. incremental adjustments to the prior year's Budget. Under Outcome Budgeting, the focus will be on a more comprehensive view of total budget spend, combined with an understanding of performance of programs and services, and how they contribute towards achieving outcomes.

Table 1.0: Shifting from delivering services to achieving outcomes

BEFORE: Service delivery approach	**AFTER:** Outcomes approach
Deliver more buses and trains.	Reduce commuter time.
Increase the number of doctors and nurses in emergency departments.	Reduce waiting times in emergency departments.
Increase the number of teachers and build new schools.	Improve educational outcomes for primary and secondary students.

The significant benefit of Outcome Budgeting is that it will provide a *common framework* for all stakeholders: for decision makers considering the distribution of budget resources (i.e. cabinet ministers); for service providers to manage and report on budget funds (i.e. government agencies and non-government providers); and for residents of NSW to understand how public funds have been used. Use of a common framework that covers total budget spend will increase transparency and accountability for public funds and promote greater value from public spending.

A performance informed and outcome focused approach will enable the government to look at the best way to achieve outcomes for citizens, within the fiscal context and the priorities of the government. One way to do so may be to vary the mix of programs, outputs, services, and agency interventions. It will also encourage public sector agencies to coordinate and collaborate with each other, and when necessary, develop targeted programs involving non-government providers that meet specific needs of communities or cohorts of people. This will help the NSW Government, in the long-term, adopt a more dynamic and flexible approach to delivering tailored solutions, transcending agency boundaries, and achieve better outcomes for the people of NSW.

Outcome Budgeting will build on existing agency structures – which are necessary constructs for financial, audit and legal requirements – and augment and align the structures to focus on outputs and outcomes. This will result in a revised approach to structuring financial and performance information in NSW Government agencies to better inform decision making.

The Outcome Budgeting framework

Outcome Budgeting was initiated under the Financial Management Transformation (FMT) program of the NSW Government. FMT delivered a new whole-of-government financial management system (Prime), followed by a new legislation to replace and modernise a thirty-year old legislative framework. These initiatives support the implementation of Outcome Budgeting.

Evidence Bank is a database that will systematically collate and review pre-investment business cases (including CBAs), performance information and post-evaluations, and then put that into standardised summaries. It aims to: (i) provide quality assessed initiative level information on efficiency, effectiveness and appropriateness; (ii) contribute to evidence base budget decision making process under Outcomes Budgeting and Outcomes Assessments; (iii) assist in tracking whether benefits estimated at the front-end are realised at the back-end; (iv) assist to develop standardised outcome values for conducting cost-benefit analysis for future programs; and (v) aid comparative analysis of programs in NSW seeking to achieve similar outcomes, as well as compared to programs in other jurisdictions.

Changing the way the government makes budget decisions, and agencies manage their resources, is a fundamental reform. To ensure the reform's success, the transition will be phased over several years, allowing time for the model to evolve and mature, and for the sector to develop the necessary systems, processes and capabilities to support and sustain Outcome Budgeting in the long-term.

Table 1.1 below compares current processes and future processes envisaged under Outcome Budgeting.

Table 1.1: How processes will change in NSW Government

Current Processes	Future Processes
Provider perspective: Total budget spend is disaggregated into agencies and explained in terms of outputs and services they will deliver.	**Citizen perspective:** Total budget spend will be disaggregated into outcomes and explained in terms of the outcome targets to be achieved and outputs and services to be delivered to achieve those targets.
Agency focus: Resource allocation planning and decisions centred around agencies, limiting cross sector and whole-of-government perspectives.	**Outcome focus:** Resource allocation planning and decisions to be centred around achieving outcomes, encouraging cross-cluster collaboration and a whole-of-government perspective.
Financially driven decisions: Budget information and monitoring focused more on agency financials, with performance information, where available, given limited attention but not routinely incorporated in decision making.	**Performance informed decisions:** Budget information and monitoring will consider both financial and performance information of programs, outputs and services to inform performance informed decision-making.
Ad-hoc reviews: Reviews of public spending, evaluation of program performance, and evidence to inform future budget decisions are not consistent or systemic across the government.	**Systemic reviews:** Reviews will be systemic and integrated with the budget process to develop a robust evidenced based decision making and promote greater value from public spending.

This approach comprises four critical elements as explained below:

1. **Outcome Budgeting Structure.** The 2018-19 Budget introduced the 46 State Outcomes, presenting a citizen-perspective of the Budget. Each outcome is further disaggregated into Programs that deliver outputs and/or services to achieve the State Outcomes. This structure also includes indicators and performance measures to track outcomes and monitor Programs. The Outcome Budgeting Structure sits atop the existing legal agency structures and lays the foundation for moving from agency focus to outcome focus. Part 1 of this paper will focus on this element.

2. **Financial and non-financial performance monitoring.** This is the process for monitoring financial and performance information of an agency of programs, with a focus on outcomes. This is the critical next step to meaningfully link financial and non-financial performance information. This link will support the shift of budget decision-making from being driven primarily by financials to be informed by non-financial performance as well. Part 2 of this paper will focus on this element.

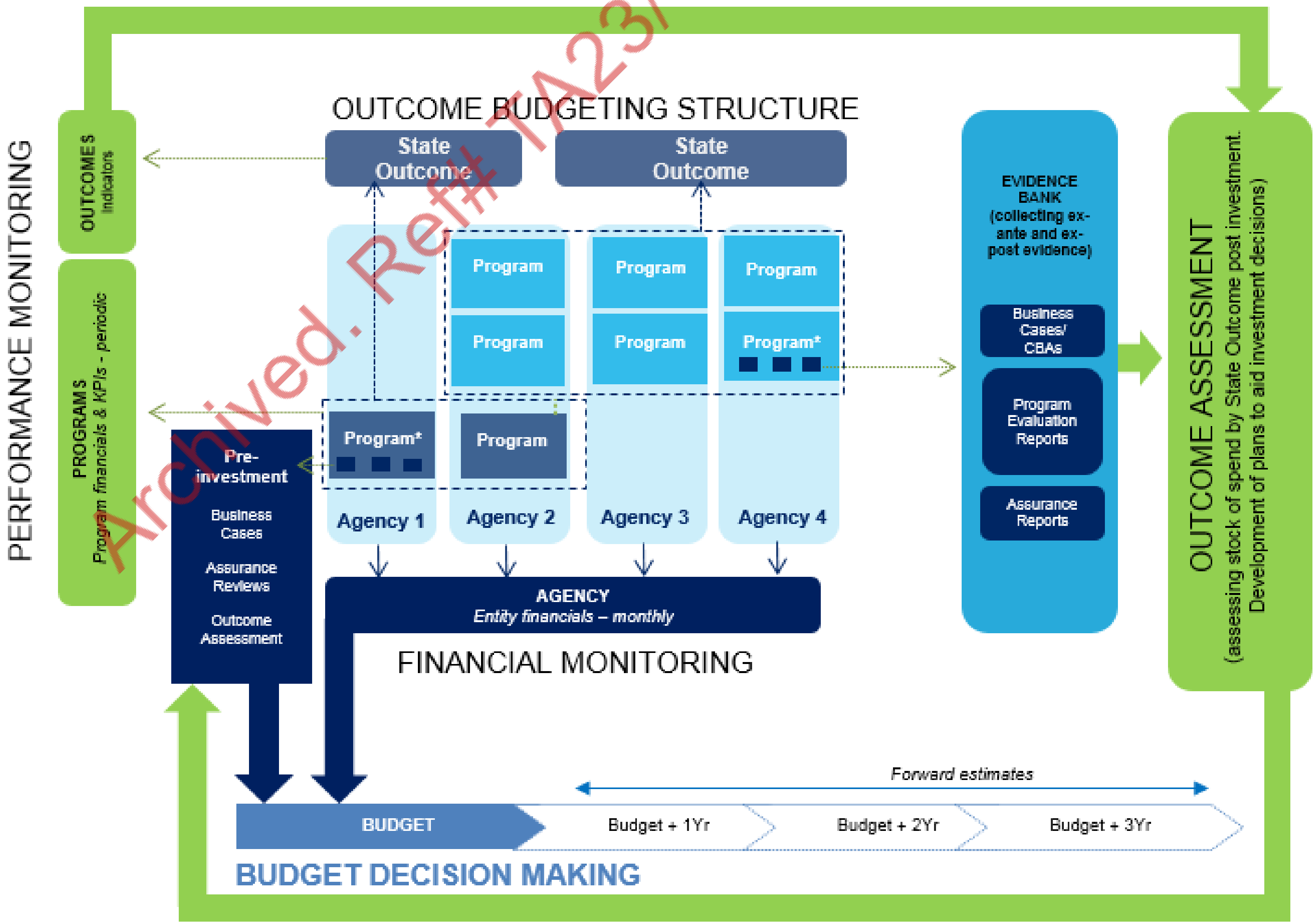
3. **Outcomes Assessment.** This refers to a comprehensive and in-depth assessment of the performance of State Outcomes and Programs. Current review processes are ad-hoc and focus mainly on identifying efficiencies in agency budgets. Outcomes assessment will review how State Outcomes are being achieved, evaluate the effectiveness of programs within each State Outcome, and identify alternative strategies, programs or delivery arrangements to achieve State Outcomes. Outcomes Assessment will integrate several existing processes (e.g. evaluations and assurance reviews), available evidence base (e.g. from the Evidence Bank) and build on the financial and performance monitoring in point 2 above.

4. **Budget decision making.** The objective of Outcome Budgeting is to support responsible financial management in the context of achieving outcomes for the people of NSW. The Outcome Budgeting framework enables more informed resource allocation decisions and enhances the monitoring and reporting accountability of agencies and clusters.

Table 1.3 below provides the indicative timeframe for implementing Outcome Budgeting.

Table 1.3: Phased approach to implementing Outcome Budgeting

Financial Year	Budget	Description *(during financial year)*	Performance Monitoring	Outcome Assessment	Budget Process
2018-19	Introduce Outcome Budgeting framework	Refine outcomes and performance measures and introduce performance monitoring practice in Treasury and agencies	Start practice	Develop policy	Develop policy
2019-20	Refine performance measures	Refine performance measures; increase performance monitoring practice in Treasury and agencies; pilot outcome assessments and test minor improvements to the budget process	Improve practice	Pilot in clusters	Minor changes
2020-21	Performance monitoring used to inform budget decisions in new budget process	Refine performance measures, test the process of using pilot outcome assessments to inform budget process and finalise key elements of future budget process.	Established practice	Refine policy and roll-out assessments	Roll-out new budget process
2021-22	Maturing of information and capability, improving the new budget process	Refinement and maturation of the data, capability and process	Established practice	Established practice	Maturing


OUTCOME BUDGETING STRUCTURE
State Outcome
State Outcome
PERFORMANCE MONITORING
OUTCOMES indicators
PROGRAMS Program financials & KPIs - periodic
Program
Program
Program
Program
Program
Program*
Program*
Program
Pre-investment
Business Cases
Assurance Reviews
Outcome Assessment
Agency 1
Agency 2
Agency 3
Agency 4
AGENCY Entity financials – monthly
FINANCIAL MONITORING
EVIDENCE BANK (collecting ex-ante and ex-post evidence)
Business Cases/ CBAs
Program Evaluation Reports
Assurance Reports
OUTCOME ASSESSMENT (assessing stock of spend by State Outcome post investment. Development of plans to aid investment decisions)
Forward estimates
BUDGET
Budget + 1Yr
Budget + 2Yr
Budget + 3Yr
BUDGET DECISION MAKING

This paper will focus on the first two elements of the Outcome Budgeting framework. The intention is to document the Outcome Budget policy, regarding the structure, financial and performance information required, and the process for reporting information. The Outcome Assessment and the Budget decision making processes are to be developed in consultation with all the clusters during 2018-19 and will be included in the second release of this Treasury Policy Paper.

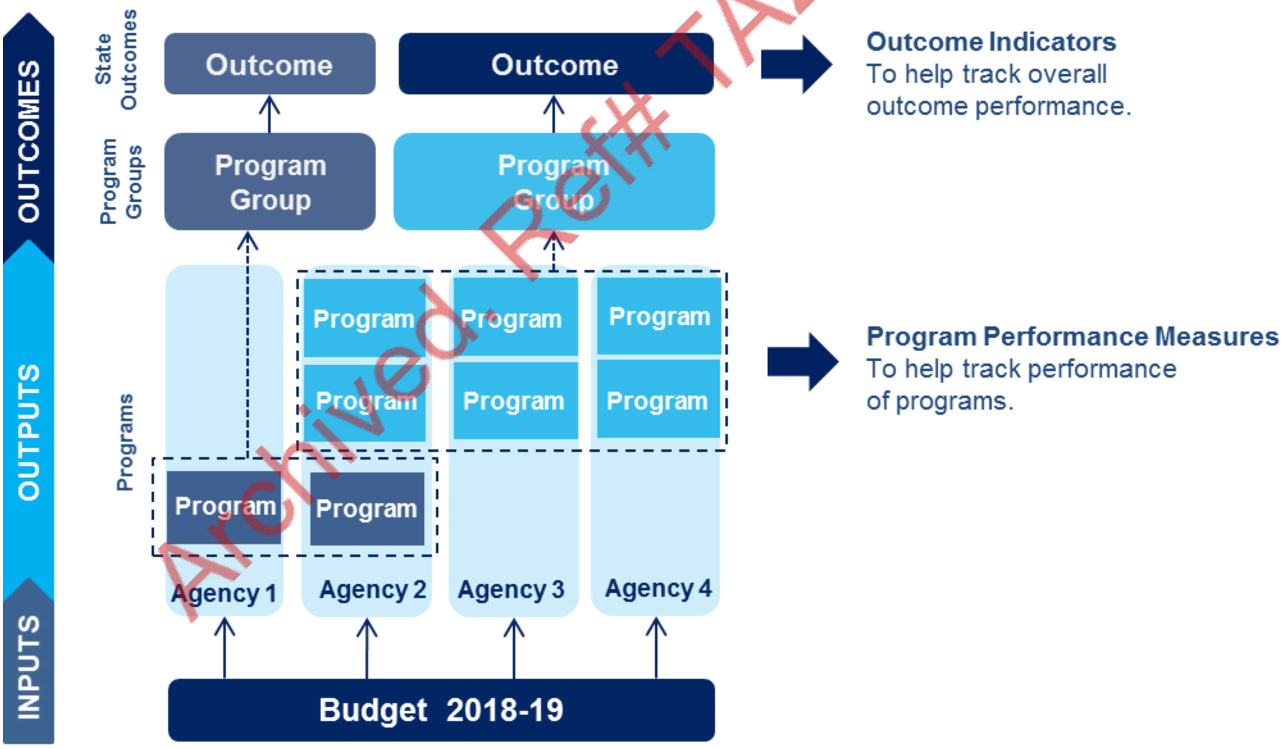
Part 1: Outcome Budgeting Structure

Key Points:

- State Outcomes describe the outcome the government is seeking to achieve for the citizens of NSW within a responsible fiscal envelope.
- State Outcomes should cover the expenditure of each cluster.
- Every State Outcome is accompanied by Outcome Indicators which measure the performance of the Outcome.
- State Outcomes are broken down into individual Programs.
- Every Program is accompanied by performance measures which measure the performance of the Program.
- Programs are administratively organised into Program Groups, which are directly linked to Outcomes.

This part details the components of the Outcome Budgeting Structure and provides specific definitions and guidance on the information to be collected and retained by clusters and agencies for the implementation of Outcome Budgeting.

Figure 2.0: Outcome Budgeting Structure



Structural requirements

State Outcomes

Definition: A State Outcome means the primary purpose for which Budget funding is being expended, which clearly explains to the public the goal that a sub-national government is seeking to achieve for its citizens**.**

Requirement: Clusters should develop State Outcomes that cover the total expenditure of their cluster. Ministers are responsible for the State Outcomes associated with their respective cluster or agency/ies. Outcomes will be delivered within the Budget approved by Expenditure Review Committee for each cluster.

Guidance: The following design principles should be used to define State Outcomes:

- The phrasing of State Outcomes should be short and succinct, and their meaning readily understood by the people of NSW (such that they understand the purpose for which the money is being spent);
- State Outcomes should not be too aspirational or vague, but determined at a level where meaningful Outcome Indicators to track progress can be identified and reported on at least annually. State Outcomes should serve as investment signals, i.e. be sufficiently specific to enable ERC to make resource allocation decisions during the Budget process; and
- State Outcomes should also be relevant for agencies to manage resources, showing what has been 'funded' or is 'fundable' to deliver the Outcome.

Example: *Safer Communities* (from the Justice Cluster); *Educational foundations for success* (from the Education Cluster)

Outcome Indicators

Definition: An Outcome Indicator for a State Outcome is a measure of effectiveness that can reasonably demonstrate to the public the performance of the government in achieving the specific State Outcome.

Requirement: Clusters should identify at least one Outcome Indicator for each endorsed State Outcome, including, where appropriate, regional data. See Annex F for a list of the agreed Outcome Indicators to be reported at a regional level.

Guidance: The following design principles should be used to define Outcome Indicators:

- Achieving State Outcomes can be impacted in varying degrees by a range of market - and non-market related factors and externalities from other interventions. Since complete attribution is often difficult to determine, a pragmatic approach should be adopted by selecting an indicator that best signals the contribution of Programs in facilitating desired change. Reported contributions may be presented in a clear and unambiguous manner to facilitate the Budget decision-making process; and
- Ministers are responsible for Outcome Indicators associated with the State Outcomes for which they are responsible.

Example: Proportion of students in the top two NAPLAN bands for reading and numeracy (from Education Cluster's Outcome *Educational foundations for success*)

Programs

Definition: A Program is the collection of activities, tasks, divisions or functions of an agency, designed to deliver specific outputs that contribute towards achieving a State Outcome.

Requirement: All agencies must disaggregate their total expenses and revenue into Programs. Programs should be mutually exclusive and collectively exhaustive, i.e. together all Programs relevant to a specific State Outcome should cover the total budget for that Outcome, without overlaps.

Guidance: The following design principles should be used to define Programs:

- A Program should be contained within an agency, a Program cannot straddle multiple agencies. This is to ensure that financial accountability for agencies (for legal and auditing purposes) is aligned to their performance accountability for Program outputs;
- There is no pre-determined financial limit for defining a Program. It is important that agencies structure Programs to clearly identify service delivery outputs. Depending on the size and significance of Programs, the causality and the strength of linkage between Program outputs to State Outcomes will vary substantially. In instances where Program outputs are significant, there could be a direct and immediate impact on a State Outcome, providing a clear attribution of outputs to outcomes. However, for smaller Programs, outputs may only contribute towards a broader State Outcome. In such instances, Programs should be strategically aligned to the relevant State Outcome to recognize the fact that Budget funds are being expended to contribute to the achievement of higher level outcomes;
- Program structures should be organisationally relevant, aligned to financial/reporting structures of the agencies (so costs can be understood), and appropriate for managing resources internally;
- Whilst Programs should be sufficiently granular to facilitate decision making at the ERC level, they should not impose an excessive administrative burden on agencies for measuring, collecting and reporting Program information; and
- Programs could be structured from a cohort perspective (e.g. disadvantaged communities), or geography (remote and rural areas), or by using any other stratification, as may be relevant.

Example: Admitted Services program under the Health's Outcome for *Improved services in hospitals*. This is a significant program, accounting for almost 50% of the Outcome Budget, and has a very strong causality, i.e. its outputs directly attribute to the achievement of the *Improved services in hospitals* outcome.

Example: Independent Advice and Accountability program under the Department of Premier and Cabinet's Outcome for *Accountable and Responsible Government*. This is a small program, accounting for less than 2% of the Outcome Budget but has outputs that are relevant and contribute towards the achievement of a higher level *Accountable and Responsible Government* Outcome.

Program Groups

Definition: A Program Group is an administrative mechanism that combines all relevant and related Programs within the cluster that specifically contribute towards a State Outcome.

Requirement: Ideally, every State Outcome should have only one Program Group. However, if deemed necessary or relevant, a State Outcome could have more than one Program Group (e.g. a cross-cluster State Outcome could have more than one Program Group). The Principal Department, or an agency in the cluster, will have primary financial and performance accountability for the Program Group and for the Programs contained within it.

A Program Group can be structured in many ways as relevant to the cluster/agency responsible for the Program Group. It may contain only one program in one agency, or many Programs from one agency, or many Programs from multiple agencies from within the cluster.

Program Performance Measures

Definition: A Program Performance Measure is a quantitative or qualitative measure of Program performance that is used to demonstrate change and that details the extent to which Program results are being or have been achieved.

Requirement: A useful performance measurement framework underpins financial accountability and, importantly, informs the development and implementation of policies to deliver value for money results for the community generally, or to a group of customers or stakeholders more specifically. Measuring and assessing performance facilitates continuous policy assessment to ensure services continue to meet the community's needs and expectations.

Performance information should reflect the agency's objectives and services and be appropriate and useful for the stakeholders who are likely to use the information. The measures should be integrated into agency planning and management processes and should be able to be measured consistently and accurately over time.

Every Program should have at least one of each type of the following measures:

- input;
- output;
- efficiency;
- effectiveness; and
- equity (as per bilateral agreement(s) between Treasury and clusters).

Full compliance with these requirements is expected by 31 December 2020. The use of performance measures as part of the Budget framework will be a staged process. Refer to Annex E for further details.

Guidance: The following design principles should be used to define Program Performance Measures:

- Program Performance Measures should meaningfully tell the story of how successful the Program has been in reaching its objectives, the challenges experienced, lessons learnt, and any revision to the Program delivery that will impact performance measurement;
- The full suite of all five types of Program Performance Measures may not provide a sensible narrative of some Programs' performance. However, Programs should be structured in such a way that allows for all five types of Program Performance Measures to provide a holistic view of their performance; and
- Secretaries are responsible for the Programs and Program Performance Measures associated with their agencies.

Further details and guidance on each type of performance measures are provided below.

Inputs

An input measure is a direct or indirect measure of the financial, human, material, technological and information resources used to implement a Program. As a minimum, agencies are required to provide FTE and expenses as input measures, and develop further measures as the program matures. Input indicators could cover tangible resources such as the availability of staff and funding or could be about other 'intangible' inputs like staff qualifications, or even the agreements to provide logistical or political support to the Program.

Outputs

An output measure is a measure of products and services which result from the completion of activities within a Program. Output measures should correspond to the size and scale of Programs and be able to demonstrate how they attribute (for large and significant Programs) or contribute (for small Programs) towards the achievement of State Outcomes.

Example: The number and percentage of trains, buses and ferries operational during peak hours.

Efficiency

A measure of technical (or productive) efficiency is commonly expressed in terms of a ratio of outputs to inputs.

Example (technical/productive efficiency): Recurrent funding per annual curriculum hour for vocational education and training.

Effectiveness

An effectiveness measure must reflect the degree to which Program objectives are achieved and the extent to which targeted problems are solved. As Program results may be influenced by factors outside the control of agencies delivering services or outputs, effectiveness measures should reflect Program attribution in achieving a Program objective. In cases where such information is unavailable, effectiveness indicators may meaningfully signal the contribution of Programs in facilitating desired change. Programs which consistently perform poorly against effectiveness indicators should be evaluated to assist decision making.

Example: Volume of littered items reduced by 40%.

Equity

An equity measure measures the extent of reduction in disparities between sub-groups within a population. These disparities may be based on disability status, income, geography, ethnicity, religion, gender etc. Equity measures can reflect equity of access or equity of outcomes.

Equity of access: A government can review equity measures to understand the extent to which outputs and services are being accessed by sub-groups across a population, regardless of any difference between these groups. This is also referred to as equity of access.

Equity of outcomes: A government can analyse equity measures to understand the extent to which its interventions are producing the right outcomes for sub-groups in a population, regardless of difference. This is also referred to as equity of outcomes.

> **Example (Equity of access):** Percentage of students enrolled in government schools across NSW by disability, Indigenous status and from language backgrounds other than English (LBOTE).
>
> **Example (Equity of outcomes):** A reduction in crime rates across the State by remoteness area.

To understand whether the performance of measures quoted above has been equitable or not, their available values should be compared to other sub-groups (if comparable) and the general population.

In addition to ensuring all its outputs and services are equitably accessed and produce equitable outcomes for all sub-groups within the State, the government also needs to review if some sub-groups require special attention. For example, in addition to ensuring children with a disability are enrolled across schools, the government may need to provide additional services to ensure they achieve their educational outcomes, regardless of their disability.

Embedding government priorities

The Outcome Budgeting Structure is designed to encompass all government activity and account for all general government expenditure. A government of the days prioritisation framework (e.g. Premier's Priorities) is designed to be a subset of total activity, enabling the government to focus on activities and particular outcomes they would like to see progressed as a priority. The two frameworks are complementary, with the priorities of government being included within the encompassing outcome structure.

To enable this, all official state priorities and priorities of the government of the day (e.g. Premier's Priorities) will need to be embedded in the Outcome Budgeting Structure. The priorities can be embedded as an Outcome Indicator, a Program, or a Program Performance Measure.

> **Example 1:** *Maintaining AAA Credit Rating* is the measurement for the state priority *Protecting our credit rating*. It is also an Outcome Indicator for the State Outcome *Strong and Sustainable Fiscal Position*
>
> **Example 2:** *Volume of littered items reduced by 40% by 2020* is the measurement for the Premier's Priority. *Keeping our environment clean*. It is also a Program Performance Measure for the Program *Environment Protection Authority.*

Data requirements

Requirement: Every Outcome Indicator and Program Performance Measure should have the following information:

- baseline value;
- actual value;
- *forecast value*[1];
- target value;
- interpretation of the indicator/measure;
- calculation used for the indicator/measure;
- data source;
- data collection methodology; and
- measurement frequency.

Guidance: Definitions of baseline, forecast, and target values are provided below. Further guidance on quality assurance of Outcome Indicators and Program Performance Measures can be found in Annex B of the Appendix.

Phasing of data requirements

Tables 1.4 and 1.5 provide timeframes and what is required from clusters and by when.

Table 1.4: Timeframe of Outcome Indicator requirements

Timeframe	Minimum Required	Baseline	Actual	Forecast	Targets
30 June 2019	Outcome Indicators with internal targets	✓	✓	✓	✓
31 December 2019	Outcome Indicators with targets for publishing in the 2020-21 Budget	✓	✓	✓	✓

Table 1.5: Timeframe of Program Performance Measure requirements

Timeframe	Minimum Required	Baseline	Actual	Forecast	Targets
30 June 2019	At least **two** measures per Program	✓	✓		✓
31 December 2019	At least **three** measures per Program	✓	✓		✓
30 June 2020	At least **three** measures per Program	✓	✓		✓
31 December 2020	At least **four** measures per Program, plus an equity where applicable	✓	✓		✓

*Target for the additional measure need not be determined by the indicated timeframe.

Changes to Outcome Structures

Changes can be made to Outcomes, Outcome Indicators, Programs, Program Groups, and Program Performance Measures can occur in certain circumstances.

Details are provided in Annex C of the Appendix.

[1] Forecast values are **not** required for Program Performance Measures

Part 2: Performance Monitoring

Key Points:

Outcome conversations

Trilateral conversations will be scheduled with the Treasury Secretary, the Cluster Secretary and the Department of Premier and Cabinet (DPC) Secretary, bi-annually. These conversations will lead into the half year review (around October to November of each year) and preparation of the forthcoming Budget, prior to ERC finalisation (around February to March of each year).

Further conversations may be scheduled with senior officers in Treasury, Clusters, DPC and Agencies during the other two quarters to review and monitor financial and non-financial performance,and initiate proactive measures and/or consider alternative strategies, where appropriate.

Financial information reporting

Agency and Program financials will be reported every month (agency level) and periodically in the year (program level) in accordance with existing procedures

Non-financial information reporting

The following must be provided in any period which non-financial information is reported:

- *For all Outcome Indicators:*
  - actual and forecast values
  - status rating
  - commentary
- *For all Outcomes:*
  - commentary
- *For all types of Program Performance Measures:*
  - actual and forecast values
- *For all Programs:*
  - status rating
  - commentary

This part details the components of Performance Monitoring and provides specific requirements, and guidance on the information to be reported.

Financial monitoring

Requirements for financial reporting and monitoring

Frequency

Financial information will comprise:

- Agency expenditure – actuals and projections will be required monthly, as is the current practice.
- Program expenditure – actuals and projections will be required on a quarterly basis (i.e. Periods 4, 7, 10, and 12) along with non-financial performance information.

Agency and Program financial information will be due by the date specified in the monthly communications from Treasury to the sector.

Data requirements

Financial monitoring involves monitoring and assessing the financial position of an agency and – under Outcomes Budgeting – all Programs for which an agency is responsible. Agencies are currently required to provide actual expenditure and projections monthly, with disaggregated program financial information periodically in the year. This requirement will remain.

Financial monitoring by Programs will enhance the quality of financial data of an agency and will provide a view of where and how an agency is spending its money. The Program-level information can also be aggregated to provide an 'Outcomes view' of expenditure across the cluster and across the whole-of-government.

Non-financial monitoring

Requirements for non-financial reporting and monitoring

Frequency

A collection process for non-financial performance information of all Outcomes and Programs will occur in the following period:

- October (Period 4) for Half-Year Review;
- January (Period 7) for Budget Submissions and Budget conversations;
- April (Period 10) for Budget Papers; and
- June (Period 12) for Year End.

Non-financial information will be due by the date when monthly financial information is also due.

Up-to-date data for each Outcome indicator is to be prepared and provided to Treasury annually at a minimum, and more frequently where available.

Up-to-date data for each Program Performance Measure is to be prepared and provided to Treasury bi-annually at a minimum, and more frequently where available.

Ideally Outcome Indicators and performance measures, should be updated on a quarterly basis aligned with the collection process. Where the selected measures cannot be updated quarterly, it is recognised that reported figures for those measures will not change from the previous reporting period.

The Treasurer may give approval to exempt an agency from the requirement to prepare and provide particular types of performance information for a defined period of time. This must be discussed in the first instance with the Director, Outcome Budgeting, Treasury, prior to any exemption being sought.

Data requirements

In the four periods mentioned, agencies should provide updated (i) actual and (ii) forecast values (or most recent values) for each Program Performance Measure for every Program for which they are responsible. Agencies will also provide a status rating and commentary for every Program for which they are responsible.

In addition to the required Program non-financial information, Principal Departments should provide updated (i) actual and (ii) forecast values (or most recent values), a status rating, and commentary for all Outcome Indicators for which the cluster is responsible.

Annex A of the Appendix provides guidance and the methodology for status rating Outcome Indicators and Programs.

Outcome Conversations

Trilateral conversations will be scheduled biannually with Treasury Secretary, Cluster Secretary and DPC Secretary. These conversations will inform half yearly review around October/November, each year, and Budget discussions, around March each year. Financial and non-financial information will form a critical part of these conversations, as emphasis will be on both how the Budget is being managed as well as how outcomes are tracking.

During the other two quarters, where necessary, senior officers of Treasury, Cluster, DPC and Agencies may hold discussions to review performance of programs and outcomes. These conversations may facilitate early interventions and/or consideration of alternative strategies, where appropriate, to sustain and/or improve financial and non-financial performance.

Performance monitoring is centred on continuous dialogue between clusters and Treasury. These conversations will be shaped by both the financial and non-financial information available and will enhance the understanding of how Outcomes and Programs are performing. Further guidance can be found in Annex D.

Appendix

Annex A: Self-reporting guidance for performance monitoring during the annual Budget cycle

To facilitate performance monitoring, a performance status rating will be used to report on performance of both State Outcomes and Programs. Performance rating options are described in Table A below.

Table A

Status	Definition	Symbol
Stable	Performance is on track (default position expected in most situations)	
Exceeding	To report exceptionally good performance	
Challenging	To report challenging or emerging issues impacting performance	
No Data	Unavailable or insufficient data to report progress	

Performance rating – State Outcomes and Indicators

Outcome Indicators will be used for reporting performance of State Outcomes. Every Outcome Indicator should be given a status according to its current value, as described in Table B below.

Table B

Status	Definition
Stable	Where current value of the Outcome Indicator is on par with target and/or forecast value.
Exceeding	Where current value significantly exceeds the target and/or forecast values.
Challenging	Where current value is significantly lower than the target and/or forecast values.
No Data	No reliable data/ insufficient data available to compare current value with baseline, target or forecast values.

Performance rating – Programs

Every Program should be given an overall performance status rating. This could be based on a qualitative assessment of the extent to which each of the Program Performance Measures have been achieved. Table C below provides general guidance on how an overall Program performance status rating can be determined.

Table C

Status	Definition
Stable	Most Programs are expected to default to this status. Where Program Performance Measures are available: • Current value of measure is on par with target and/or relevant forecast value for most of the Program Performance Measures. Where Program Performance Measures and/or targets or forecast values are not available: • Make a qualitative assessment as to whether the Program overall is on track.

Exceeding	This should be under exceptional circumstances Where Program Performance Measures are available: • Current value of the measures exceed target and/or forecast by a significant margin Where Program Performance Measures and/or target or forecast values are not available: • Make a qualitative assessment, as to whether the program overall should be reported to ERC as performing exceptionally well.
Challenging	This should be under exceptional circumstances. Where Program Performance Measures are available: • Current value of measures falls significantly below target and/or forecast for most of the measures Where Program Performance Measures and/or target or forecast values are not available: • Make a qualitative assessment, as to whether the Program overall should be reported to ERC as challenging due to current and/or emerging issues in the internal or external environment.

Annex B: Definitions and guidance for required data values

Baseline

Definition: Baseline is a clearly defined starting point. For an existing outcome indicator or program performance measure it is the actual value for the twelve-month period ending in financial year 2016-17. For a new measure it is the actual value during the first year of data collection.

For an existing Outcome Indicator, this should be the actual value for the twelve-month period ending in financial year 2016-17. For any new indicator(s), the baseline should be the actual value during the first year of data collection. A different period may be used where agreed upon by the cluster and Treasury.

For a Program Performance Measure, this should be the actual value for the twelve-month period ending in financial year 2016-17. For any new measure(s), the baseline should be the actual value for the indicator at the beginning of Program implementation. A different period may be used where agreed upon by the agency and Treasury.

Forecast[2]

Definition: A forecast annual figure of an Outcome Indicator and/or Program Performance Measure, at the end of the financial year.

Forecasts should be based on current trends of actuals, and anticipated events in the year, that are expected to impact performance.

For each Outcome Indicator, the forecast should be the value of performance that is anticipated to be achieved by 30 June of the financial year.

Forecast values are **not** required for Program Performance Measures. However, they are still encouraged to be provided where possible and appropriate.

Target

Definition: A target is the desired level of performance for an Outcome Indicator and/or a Program Performance Measure that is expected to be attained on or before a defined period. This should include a specific value and period.

Targets should be measurable and realistic but challenging.

For Outcome Indicators, targets should be realistic in the context of approved funding, measurable and, where appropriate, sustainable. The appropriate time horizon over which to measure performance must also be considered.

For Program Performance Measures, targets should be set according to the type of measure and the time-frame required to achieve it. For example, given that it takes time to establish the effectiveness of a Program or service, an effectiveness measure could have a relatively longer-term target in comparison to the target for outputs, which are usually delivered as an immediate consequence of Program implementation.

[2] Forecast values are **not** required for Program Performance Measures

Once targets are achieved, depending upon a Program's objective or the State Outcome it contributes to, agencies may consider it a success and reset the target.

In cases where it is difficult to note discernible movements in Indicators over one or more years, or the intention is to maintain a certain level of performance or compliance, targets could remain constant.

Annex C: Guidance on changes to Outcome Structures

To make any changes to existing Outcome Structures and/or associated information related to Outcome Indicators and Program Performance Measures, agencies should follow the guidance below.

Changing State Outcomes and/or Outcome Indicators

When can a State Outcome and/or Outcome Indicator change?

- Changes to State Outcomes can only be proposed as an exception e.g. if a Machinery-of-Government change occurs.
- Clusters can propose changes to Outcome Indicators in the following cases:
  - If proxy indicators or any existing measures need to be replaced with stronger Outcome Indicators; or
  - If a State Outcome has been revised or changed, agencies may need to revise the corresponding Outcome Indicator(s) and/or provide new ones.

What is the process to change a State Outcome and/or Outcome Indicators?

- State Outcomes and Outcome Indicators are finalised at a Cabinet level and any changes to this information will require approvals from the relevant Minister(s) and the Treasurer.
- Principal Departments can propose changes to State Outcomes and/or Outcome Indicators in December of each year.
- The relevant Principal Department should initially discuss proposed changes with the Treasury. Thereafter, the relevant Minister should inform the Treasurer in writing about the agreed changes, with a copy to Treasury. Agreed changes to State Outcomes and Outcome Indicators will be effective from 1 July of the next financial year.
- If an Outcome Indicator is published in the Budget, and changed throughout the financial year, it will still need to be reported only in the subsequent Budget for transparency and accountability purposes. As such, Principal Departments should maintain historical information on old State Outcomes and/or Outcome Indicators.

Changing Program Groups and/or Programs

When can a Program Group and/or Program change?

- Agencies can propose changes to Program Groups, changes to State Outcomes and/or Programs necessitate a change to Program Groups.
- Agencies can propose changes to Programs in the following cases:
  - if a Program has concluded;
  - if a Program design is revised; or
  - if a new Program needs to be created.

What is the process to change a Program Group and/or Program?

- Treasury should be informed in writing about changes to Program Groups and Programs before the 31 December. Any changes require approval from the Secretary of the Principal Department.
- Changes to Program Groups and Programs will take effect when Treasury is informed of them.

Changing Program Performance Measures

When can a Program Performance Measure change?

- Agencies can propose changes to Program Performance Measures in the following cases:
  - If proxy indicators or any existing measures need to be replaced with stronger measures; or
  - If a program has concluded, been revised, or changed, agencies will accordingly need to revise the corresponding performance measures and/or provide new ones.

What is the process to change a Program Performance Measure?

- Treasury should be informed in writing about changes to Program Performance Measures and provide up-to-date information on revised or new measures. Any changes require approval from the Secretary of the Principal Department.
- Relevant agencies should maintain historical information on both old and new Program Performance Measures.

Machinery-of-Government Changes

A Machinery-of-Government (MOG) change may result in a change to Outcome Structures. There are a number of possible scenarios and some examples are:

1. A Program is required to shift

   This case occurs if the MOG only requires a Program (or Programs) to shift from one State Outcome to another, without significantly changing the purpose of the State Outcomes impacted. In this case, the Program will be placed under an associated Outcome within the new cluster or agency without any changes to Outcome Structures.

   If the shifting Program(s) will significantly alter either the previous or new State Outcome, refer to point 3 below.

2. An Outcome is required to shift

   This case occurs if the MOG only requires a shift of an entire Outcome (or Outcomes) from one cluster to another. In this case, the Outcome (and all its associated Programs) will move to the new cluster.

3. An Outcome is significantly altered

   This case occurs if the Outcome(s) associated with a MOG change are significantly altered. In this instance, the affected clusters will be required to develop new Outcomes and Outcome Indicators to align with the new government structure.

The relevant Minister(s) should discuss the new Outcome Structure with the Treasurer and inform Treasury in writing about the agreed changes. The new Outcomes and Outcome Indicators will be finalised at a Cabinet level. The new State Outcomes and Outcome Indicators will be effective from 1 July of the next financial year, or at a date as required by the MOG change. Principal Departments will be required to maintain historical information on the old State Outcomes and Outcome Indicators for reporting purposes.

Annex D: Outcome conversations guidance

Outcome discussions should be framed around the questions in Box 1.0

How is the State Outcome performing and tracking?

Understand the performance of the State Outcome by reviewing the baseline, actual, forecast and target values for selected Outcome Indicators along with the status rating and commentary provided.

Conduct a trend analysis where historical data is available, analyse any variances, and understand the potential causes of unplanned deviations from the forecast.

Discuss the milestones that can be implemented to reasonably progress towards the target(s).

Are there potential risks and challenges that can impact Outcome performance?

Identify and discuss potential risks and challenges, based on the analyses of the trend and variances for Outcome Indicators. Discuss potential ways through which the government can manage such risks and tackle identified challenges.

How are the Programs performing and tracking?

Understand the performance of all relevant Programs under each State Outcome by reviewing the baseline, actual, forecast and target values for selected Program Performance Measures, and by reviewing the status rating and commentary provided for each Program.

Conduct a trend analysis where historical data is available, analyse any variances, and understand the potential causes of unplanned deviations from the forecast.

Discuss the milestones that may be implemented to reasonably progress towards the targets.

Are there potential risks and challenges that can impact Program performance?

Identify and discuss potential risks and challenges, based on the analyses of the trends and variances for Program Performance Measures. Discuss potential ways by which the government can manage such risks and tackle identified challenges.

Are the Programs meaningfully contributing to the achievement of the State Outcome?

Understand the overall context in which Programs are being implemented and Outcomes are progressing. Understand how specific Programs are meant to contribute to discrete Outcomes.

Compare the performance of Program effectiveness measures with the performance of related Outcome Indicators.

Note that:

- Programs are aggregations of individual projects, activities, and sub-programs that an agency implements to facilitate the achievement of an Outcome. Accordingly, Outcomes can be influenced not just by government, but also by non-government partners (e.g. NGOs) and external factors (e.g. market factors); and
- It can be challenging to draw conclusions on the causal relationship between the performance of Programs versus that of Outcomes. Where attribution is not feasible, acknowledge the plausible or credible contribution of funded Programs to achieve Outcomes.

Discuss the role of other factors and/or actors (outlined above) in influencing the performance of the specific State Outcome. How can the government can regulate, partner, and/or positively influence these actors/factors to facilitate Outcome achievement? Identify mutually agreed pathways to strengthen Program performance and/or deepen the understanding of performance issues by referring Programs for further review and/or evaluation.

Is further support required to strengthen performance?

If a State Outcome and/or Program consistently experiences performance challenges over a period, the responsible cluster and Treasury Analyst can discuss potential steps to strengthening performance. The steps taken to strengthen performance can vary depending on the budget, scope, and relative importance of specific Outcomes and/or Programs.

Annex E: Phasing of compliance

Table 1.3: Phased approach to transitioning to Outcome Budgeting

Financial Year	Budget	Description *(during financial year)*	Performance Monitoring	Outcome Assessment	Budget Process
2018-19	Introduced Outcome Budgeting framework	Refine outcomes and performance measures and embed performance monitoring practice in Treasury.	Start practice	Develop policy	Develop policy
2019-20	Refine performance measures	Refine performance measures; increase performance monitoring practice in Treasury; pilot outcome assessments and test minor improvements to the budget process.	Improve practice	Pilot in clusters	Minor changes
2020-21	Findings of pilots and performance monitoring used to inform Budget decisions in new budget process	Refine performance measures, test the process of using pilot assessments and performance monitoring to inform Budget process and finalise key elements of future Budget process.	Established practice	Refine policy and roll-out assessments	Roll-out new budget process
2021-22	Maturing of information and capability, improving the new budget process	Refinement and maturation of the data, capability and process.	Established practice	Established practice	Maturing

Table 1.4: Timeframe of Outcome Indicator requirements

Timeframe	Minimum Required	Baseline	Actual	Forecast	Targets
30 June 2019	Outcome Indicators with internal targets	✓	✓	✓	✓
31 December 2019	Outcome Indicators with targets for publishing in the 2020-21 Budget	✓	✓	✓	✓

Table 1.5: Timeframe of Program Performance Measure requirements

Timeframe	Minimum Required	Baseline	Actual	Forecast	Targets
30 June 2019	At least **two** measures per Program	✓	✓		✓
31 December 2019	At least **three** measures per Program	✓	✓		✓
30 June 2020	At least **three** measures per Program	✓	✓		✓
31 December 2020	At least **four** measures per Program, plus an equity where applicable	✓	✓		✓

*Target for the additional measure need not be determined by the indicated timeframe.

Annex F: State Outcome Indicators with regional breakdowns

Cabinet approved clusters providing regional data for identified existing and new outcome indicators. This information will be used to prepare an annual Regional Services Report that will update Cabinet on service delivery and other social and economic measures in regional NSW. Clusters have agreed to provide data using the ABS Accessibility/Remoteness Index of Australia (ARIA) classification (which can be drawn from local government area data). Where agencies are unable to provide this, alternative regional breakdowns have been agreed. Regional data will **not** be published publicly.

Table E below presents the Outcome Indicators that with available regional breakdowns.

Table E: Outcome Indicators with regional breakdowns

Cluster	State Outcome Indicator	Regional Breakdown Available
Education	Proportion of children who are enrolled for 600 hours in an early childhood education program in the year before school	Remoteness Area
Education	Proportion of students in top two NAPLAN bands for reading/numeracy	Remoteness Area
Education	Proportion of young people with an HSC, Year 12 certificate or AQF certificate II and above	• Major Cities • Regional NSW (=Inner Regional + Outer Regional + Remote + Very Remote)
Education – Aboriginal Affairs*	Aboriginal Affairs data will be used including information on Local Decision Making (participation) and Regional Alliances	• Community Profiles by Remoteness Area • Regional Alliances
FACS	Rate of children and young people in out of home care per 1,000 population (aged 0-17)	FACS District
FACS	Proportion of young people who move from specialist homelessness services to long-term accommodation	FACS District
Finance	Improve customer satisfaction in rural and regional areas from the 2016 baseline	• Metropolitan (=Major Cities) • Regional (=Inner Regional) • Rural (=Outer Regional + Remote + Very Remote)
Health	Breast Screen participation rates (Women aged 50-74)	Remoteness Area
Health	Acute post-discharge community care (Mental Health)	Remoteness Area
Industry	Apprenticeship and traineeship completion rates (%)	Remoteness Area
Industry*	Total (water and sewerage) customer complaints (no./1000 properties)	Remoteness Area
Justice	Recorded violent crime incidents per 100,000 of population	Police region
Planning*	Percentage of eligible households taking up energy rebates (%)	Remoteness Area
Transport	Road fatalities per 100,000 population	Remoteness Area
Transport	Proportion of regional population with access to public transport day return to nearest city or major regional centre	Remoteness Area

*New indicators developed for the Regional Services Report.