

## 2.0 Performance Management Today

This section reviews the current state of performance management framework. It sets the scene for later sections by discussing the expectations that Parliament had for performance management. This section focuses on the LGA. Some of the key findings from the results of the audits of the 2006-16 LTCCPs are also included as a reference point both for where the sector has come from, and where it needs to go.

### 2.1 Legal Requirements

Performance management is far from new either in terms of the legal requirements or the context in which performance management is undertaken. Legal requirements to report financial and non-financial performance have existed in one form or another since at least the introduction of the annual plan/annual report regime during the local government reforms of 1989.

The LGA establishes that local government is in the business of promoting the present and future community wellbeing. Local government has been provided with a wide set of powers to undertake this business. The planning and accountability framework of the Act really is the means by which the local authority and the community agree on the path to wellbeing and make tradeoffs between levels of service and cost. Therefore the legal requirements relating to performance management information are shaped by:

1. making tradeoffs transparent for the community - being clear about what the cost to the community is, in return for what value (levels of service)
2. establishing linkages between the activities the local authority provides and community wellbeing, and
3. providing certainty for the community that the levels of service are sustainable.

The Act largely replicates the requirements to plan and report for levels of service on an annual basis that were in the Local Government Act 1974. What is new is that this disclosure is not only required for the current year but over the ten years of the LTCCP. In particular, levels of service and performance measures must be stated in detail for the first three years of the plan, and in outline for the remaining seven years. In addition, intended levels of service, performance measures and the information supporting them are subject to audit review, making the requirements for robust planning and support systems considerably greater.

Local authorities are also required to state how they intend to assess and manage the asset management implications of changes to service levels and standards. This links to information regarding the creation, acquisition, maintenance and disposal of assets.

The links to community wellbeing are made in part through a new requirement to monitor and report the progress of the community towards achieving the community outcomes. The requirement to include the results of any measurement of progress in the annual report provides a link between the interventions of council and their impact on community outcomes. The annual reporting requirement also provides an opportunity to take corrective action.

The auditor is now required to give an opinion on the extent to which the performance measures provide a meaningful basis for assessing levels of service. The test that auditors applied in the 2006 audits essentially looked for a performance framework that:

- established the rationale for councils involvement in each activity, its objectives, and any significant risks or negative effects that required management while undertaking the activity

- contained service levels and performance measures that provide a useful way of showing how the service achieves the council's rationale for performance involvement
- identified the planned levels of service for the next three years, and provides outline information for the next seven, and
- contained measures and targets that allow the meaningful assessment of actual levels of service provision, are reasonable and based on sound information.

In short, the auditors were looking for a flow of logic from wellbeing and the reason councils undertake their activities through to levels of service and the associated performance measures and targets. A second feature of the audit test was a demonstration that forecast expenditures would generate the proposed levels of service.

## 2.2 What Are the Current Performance Management Frameworks Like?

Performance management information is meant primarily to demonstrate the value your local authority provides to the community. Using this as the yardstick, the general impression is that the performance management frameworks in the 2006-16 LTCCPs showed some improvement over those in the preceding years. There was some variability in the standard across the sector, and even within the same LTCCP.

The Auditor-General's recent report noted a discernable improvement in the overall standard of performance management frameworks over those in 2004-14 LTCCPs<sup>3</sup>. Only two local authorities received non-standard audit reports for reasons related to their performance management framework. But auditors raised issues with the performance management framework in many local authorities that were either not significant enough to warrant a non-standard opinion, or where change was made to address the concerns.

Common areas for improvement in 2006-16 LTCCPs were:

- integration with other information in the LTCCP
- logical flow
- comprehensiveness and consistency
- use of contextual information
- levels of service, performance measures and targets
- disclosure of significant negative effects, and
- monitoring of community outcomes.

### Integration

Performance management information should integrate with the overall story the LTCCP is telling about the activity. Ideally the reader should be able to look at an activity statement and detect the influence of changes of levels of service in the financial statements, and have that explained somewhere in the text.

### Logic Flow

A performance management framework should explain why your local authority has chosen to undertake particular activities in terms of their contribution to community wellbeing. This rationale should then drive your choice of service levels and the associated performance measures and targets. Some LTCCPs struggled to demonstrate this flow of logic.

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<sup>3</sup> See *Office of the Auditor-General, (2007), Matters Arising from the 2006-16 Long-Term Council Community Plans.*

This manifested itself in:

- *lack of information regarding the rationale for activities.* Statutory compliance was an often cited reason for undertaking particular activities, without any other explanation linking the activity and wellbeing, and
- *weak links between service levels and performance measures.* This creates confusion as to how activities would be measured and why measure was important. Some frameworks appeared to be a compilation of the information the local authority had on hand without any link to levels of service.

## Comprehensiveness and Consistency in Frameworks

Most local authorities have added to or refined their frameworks in some way. In 2004 some talked in broad terms rather than specific measures, but in 2006 actual performance measures were specified. In most cases, frameworks now cover the full ten years of the LTCCP – although there was some variation in what 'in outline for years four to ten' meant and hence disclosure of material for years 4-10.

A common weakness, especially at the statement of proposal stage was a lack of consistency between different parts of the same framework. Some activities had detailed information on performance management matters, others had relatively little or none. The latter appeared to be more prevalent in some of the regulatory services, governance/democracy and areas such as economic development.

## Use of Contextual Information

Context is important in a performance management framework. Techniques such as narrative descriptions can help the reader understand the relevance of particular levels of service or measures, how and why the local authority proposes to change them, and make the link between this and the cost of the activity.

This is an area where many local authorities have made conscious improvements – techniques such as narratives, lists of key projects, and linkages to other areas of the LTCCP are all common. Other relevant contextual material, such as historic levels of service and linkages to the discussions of strategic issues could have been better used.

## Levels of Service, Performance Targets and Measures

Levels of service describe what your local authority is intending to deliver. Clear specification of levels of service are an important part of determining what performance measures are relevant.

Not all of the 2006 LTCCPs had clearly defined levels of service – including in some activities where asset management planning has been the industry standard for some years. As an aside, without clearly defined levels of service, it can also be difficult to plan for maintenance and changes to asset capacity.

There appeared to be a lack of integration between service levels and the impact of asset and financial decisions upon service levels in some local authorities. For example, some councils identified their service levels would remain constant over the life of the plan, yet had asset or financial information that was indicating some form of major change – without an explanation of the apparent inconsistency.

## Significant Negative Effects

Local authorities are required to disclose the significant negative effects that their activities may have for community wellbeing. Many either missed this information altogether or had weak coverage of the negative effects. The Auditor-General also signalled that there should be performance measures and targets relating to the management of significant negative

effects. This information was missing in a large number of LTCCPs, for example, a local authority might have identified that it was breaching consent conditions for taking water, without discussing how these issues were managed.

## Monitoring of Community Outcomes

The 2006 LTCCPs were the first set that had to include information regarding the community outcomes and the monitoring of progress towards the achievement of community outcomes. Outcomes monitoring frameworks were often incomplete in 2006 – possibly because this was the first time this information had to be disclosed and partly because practice was evolving. This most commonly manifested itself in:

- descriptions about the monitoring of community outcomes being at the most general level in the LTCCP (although some local authorities disclosed this information in a separate document to emphasise that the outcomes were the community's and not council's) and
- a lack of specific targets and measures – although practice varied somewhat.

### THINGS TO REMEMBER: PERFORMANCE MANAGEMENT TODAY

1. Performance management is not 'new'. Some element of planning for, and reporting of, performance has existed since at least 1989. This includes reporting levels of service provision. However, the current requirements require greater rigour and a longer-term focus.
2. Performance management needs to be approached in a consistent way across the full range of activities of your local authority.
3. Your framework should have a clear rationale linking its activities to the promotion of community wellbeing, and from activities down to the desired attributes or levels of service, through to performance measures and targets.
4. Contextual information helps a reader better understand the importance and relevance of the levels of service and performance measures.
5. Clearly defined levels of service, and the maintenance or planned change to levels of service, should drive your asset management decisions and financials. The three should therefore integrate.
6. Don't forget to disclose the significant negative effects of your activities in the LTCCP and the means for managing those effects.
7. Community outcomes monitoring is an element of your performance management framework as it provides an objective assessment to residents of how their aspirations are being progressed and information about the actions taken by various organisations (including your local authority). This helps people determine whether your council's activities align with community priorities.

## Further Reading and Helpful Resources

Office of the Auditor-General, (2007), *Matters Arising from the Long-Term Council Community Plans*. This report contains the report of an independent reviewer regarding the areas of strength and weakness from the 2006 round of LTCCPs, and some comparison with the 2004 set. The report also contains an OAG review of the 2006 set of performance management frameworks.

Office of the Auditor General (2006) – *Report to Parliament: Results of the 2004/5 Local Government Audits*. This report contains some helpful discussion about the OAG expectations regarding the identification of significant negative effects.