



Tenth Report
of the
Standing Committee
on
Estimates and Financial Operations
in relation to
Performance Indicators

Presented by the Hon Murray Montgomery (Chairman)

10
December 1994

STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

The Standing Committee was established on December 21 1989 with the following terms of reference:

1. There is hereby appointed a Standing Committee to be known as the *Estimates and Financial Operations Committee*.
2. The committee consists of 5 members.
3. The functions of the Committee are to consider and report on:
 - (a) the estimates of expenditure laid before the Council each year; and
 - (b) any matter relating to the financial administration of the State.
4. The Committee shall report on the estimates referred under clause 3 by or within one sitting day of the day on which the second reading of the *Appropriation (Consolidated Revenue Fund) Bill* is moved.
5. For the purposes of clause 3(a), the House may appoint not more than 6 members at any stage of its examination.
6. A reference in clause 3 to "estimates of expenditure" includes continuing appropriations, however expressed, that do not require annual appropriations.
7. The Committee may initiate investigations under clause 3(b) without prejudice to the right of the Council to refer any such matter.

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C O N T E N T S

SUBJECT	PAGE
1. OVERVIEW	4
2. PERFORMANCE INDICATORS	5
3. PERFORMANCE INDICATOR REPORTING IN THE WESTERN AUSTRALIAN PUBLIC SECTOR	6
4. THE CURRENT REVIEW	7
5. RECOMMENDATIONS AND CONCLUSION	10
ATTACHMENT A: References.	15

PERFORMANCE INDICATORS

1. OVERVIEW

Since the enactment of the Financial Administration and Audit Act 1985, Western Australian Government departments and statutory authorities have been required to submit performance indicators as part of their annual reporting requirements. Almost ten years since this requirement was introduced, the Standing Committee on Estimates and Financial Operations, during the 1994/95 Consolidated Fund Estimates hearings, noted comments from agencies that the performance indicators are still in a development stage. Indeed, the Committee noted that performance indicators are yet to be developed at the programme and sub-programme level for some agencies. Further, the Auditor General has recently noted that only 18% of public sector agencies reported satisfactory performance indicators for all programmes in 1993/94 (Pearson, 1994).

Performance indicators are a central component of agency annual reporting and are becoming increasingly relevant in the implementation of current public sector administration reforms. Trends away from the traditional rule-bound, hierarchial form of bureaucratic control to a focus on performance and value place increased emphasis on performance reporting as an accountability tool. Given the current State Government's adoption of prevailing public sector reform strategies, particularly internal and external devolution of authority and control in the form of service contracts, the Committee felt it timely that a review of the development and reporting of performance information be conducted.

The Committee examined the unaudited performance indicators of the 24 agencies reviewed during the 1994/95 Consolidated Fund Estimates hearings. The performance indicators were examined against 14 criteria largely drawn from the performance indicator model developed by the Public Sector Management Office.

The Committee acknowledges the advance made to performance reporting in the Western Australian public sector since this requirement was introduced in 1985 and recognises that Western Australia compares favourably with other jurisdictions in this regard. The Committee feels, however, that systematic problems have led to a marked lack of progress by some agencies. These include a failure to formulate programme objectives which clearly identify programme outcomes, a relatively narrow definition of outcomes provided to agencies, a lack of leadership in promoting performance reporting and assisting agencies, and the need to update the relevant Treasurer's Instruction. The Committee is also concerned by the failure of some agencies to report on the achievements of objectives for which their funds were appropriated.

RECOMMENDATIONS

- 1. The Committee recommends that the central government agencies work with agencies to improve the presentation of programme objectives in terms of the specification of desired outcomes.**
- 2. The Committee recommends that the current performance indicator model be revised to give consideration to incorporating a hierarchy of outcomes as illustrated below.**
- 3. The Committee recommends that the Minister for Public Sector Management assume a leadership role in the development and reporting of performance information by clearly defining central agency responsibility for policy development, training and progress monitoring, and appropriately resourcing these activities.**
- 4. The Committee recommends that Treasurer's Instruction 904 be revised with a view to incorporating accepted evaluation principles and nomenclature and the constructs embodied in the performance indicators model.**

2. PERFORMANCE INDICATORS

Performance indicators are, self-evidently, indicators of agency performance. In recent years, measuring agency performance has become a central component in accounting to Parliament for the efficiency and effectiveness with which public money has been spent. Clear performance measures are also useful as tools for managers to focus agency effort and plan resource allocation.

Performance reporting is also a central component of prevailing trends in public sector administration reform. The reform agenda has been prompted and shaped by a number of factors, including pressures for microeconomic reform. Australia's changed external economic and trading environment (March 1994), an increasingly complex political and social environment, economic theory of bureaucracy, and neo-classical agency theory. These factors have contributed to a focus on efficiency, performance, and value, as opposed to the traditional public service focus on procedures and processes. The concern of contemporary public sector administration lies more with the achievement of outcomes than "the technical routines of administering rule" (Yeatman 1994). In this outcomes-orientated environment, financial and performance reporting frameworks are an alternative to traditional rule-bound, hierarchial administrative control (See Alford and O'Neill, 1994; Self, 1993).

The Western Australian Public Sector Management Office provides a model for conceptualising and measuring agency performance. This model is intended as a step-by-step guide to developing performance indicators, beginning with the identification of a programme population, outcomes and objectives, and outputs. Performance indicators are then developed to directly reflect the objective or output being measured.

Programme	Programme Population	Outcome	Objective	Output
Small Business Development Advisory Service	All West Australians who operate or who plan to operate a small business	Target population is well informed to make sound business decisions	Ensure that West Australians who operate or plan to operate a small business are well informed to make sound business decisions	The provision of advice and information on effectively operating a small business

A *Programme Population* consists of the people or organisations whose behaviour or circumstances the programme or sub-programme aims to change or whose needs are to be satisfied.

Figure One: Performance Indicator Model (from Armstrong 1994).

Performance indicators measure an agency's performance against programme objectives and outputs. Effectiveness indicators are objective, quantitative, and verifiable measures that provide information on the extent to which a programme or sub-programme has achieved its objective. Efficiency indicators relate outputs to the level of inputs (human, physical and financial resource) required to produce them. The following effectiveness and efficiency indicators might be used for the above example:

Objective	Effectiveness Indicators	Output	Efficiency Indicators
Ensure that West Australians who operate or who plan to operate a small business are well informed to make sound business decisions	<ul style="list-style-type: none"> - The proportion of small businesses and potential small businesses which used the Advisory Services. - The proportion of clients who made appropriate business decisions. - The proportion of clients who found the Advisory Service useful. 	The provision of advice and information on effectively operating a small business.	<ul style="list-style-type: none"> - Cost per client of the advisor and information service. - Ratio of clients to programme staff.

Figure Two: Effectiveness and Efficiency Indicators (from Armstrong, 1994)

3. PERFORMANCE INDICATOR REPORTING IN THE WESTERN AUSTRALIAN PUBLIC SECTOR

The Financial Administration and Audit Act 1985 (FAAA) requires accountable officers to include, among other things, performance indicators in an agency's annual report. Treasurer's Instruction 904, issued on 21 June 1991, requires the Accountable Officer or Authority of an agency, in a separate segment of the agency's annual report, to disclose for each programme.

- (i) the broad objective established for the department or statutory authority to which the programme relates;
- (ii) the objectives of the programme; and
- (iii) key efficiency and effectiveness indicators.

The key efficiency and effectiveness indicators shall:

- (i) be relevant, verifiable free from bias, and quantifiable;
- (ii) encompass the operations of the department or statutory authority together with its subsidiaries and related bodies;
- (iii) where appropriate, be reproduced within the elements of the annual report on operations to which they relate.

The FAAA also requires the Auditor-General, as part of the audit process, to state whether in his opinion

the performance indicators [of departments and statutory authorities] are relevant and appropriate having regard to their purpose and fairly represent indicated performance.

(Section 93)

Prior to the 1991/92 financial year, the Auditor-General did not issue an opinion on performance indicators in the belief that they had not been sufficiently developed to conduct the audit required by legislation (Pearson, 1992). In 1991/92, the Auditor-General provided Parliament with assessments of the indicators to the agencies' stated objectives and the appropriateness of the indicators for assisting external users to assess performance. It was observed that, while a number of agencies had developed performance indicators to a high standard, the indicators reported by many agencies would benefit from further development. In particular, it was noted that:

1. The programme objectives presented with the performance indicators in the Annual Report did not always correspond with the programme objectives presented in the Programme Statements.
2. Effectiveness indicators were not always relevant to the programme objective and tended to be descriptions of activities undertaken and their significance, rather than quantified achievement of objectives.
3. Where efficiency indicators were provided, inputs were not often related to outputs in a meaningful way.
4. Efficiency and effectiveness indicators would be more meaningful if they were placed in the context of benchmarks or trends over time, and were accompanied by explanatory notes.

(from Pearson, 1992)

Formal opinions on performance indicators were not issued by the Auditor-General until 1992/93. In 1992/93, opinions were, and are currently, only issued for agencies which have made considerable progress towards the development of performance indicators. Where indicators have not been sufficiently developed to conduct the audit required under s93, an assessment is issued using the same approach that was adopted in 1991/92 (Pearson, 1993).

A recent report by the Auditor-General (Pearson, 1994) notes that, although considerable progress has been made since 1991, in 1993/94 only 18% of public sector agencies reported efficiency and effectiveness indicators which were all relevant to their objectives and appropriate for assisting users to assess performance. These agencies accounted for 37% of public sector expenditure. A further 53% of agencies reported satisfactory performance indicators for at least some of their programme objectives.

4. THE CURRENT REVIEW

4.1 RATIONALE

During the Committee's review of the 1994/95 Consolidated Fund Estimates, the Committee observed that the performance indicators for some agencies did not reflect the programme structures presented in the Consolidated Fund Estimates for either 1994/95 or for 1993/94. Further, the Committee noted comments by agency representatives that the performance indicators were currently in a development stage. The Committee subsequently resolved to review the development of performance indicators during 1994/95. The Committee subsequently resolved to review the development of performance indicators during 1994/95. The Committee believes that such an investigation is timely given the current government's adoption of global public sector administration trends toward internal and external devolution of responsibility for the provision of "public" services, and the subsequent pressure these reforms place on financial and performance reporting as a means of control.

4.2 APPROACH

The Committee examined the unaudited performance indicators of the 24 agencies that appeared before the Committee during the 1994/95 Estimates hearings. The performance indicators were examined across 14 dimensions (Fig Three). First, the Committee analysed the programme objectives and noted the level at which performance indicators were presented. Acknowledging the importance of clear, specific objectives, and in accordance with Armstrong (1994) and Pearson (1992; 1994), the Committee analysed the programme objectives in terms of the specification of desired outcomes and identification of a programme population. The Committee then noted whether performance indicators had been developed and whether these were presented at the programme and/or subprogramme level.

Second, the Committee examined the content of the effectiveness indicators. Consistent with TI904 and Armstrong (1994), the Committee noted whether the effectiveness indicators reflected the programme objectives and were expressed in terms of desired outcomes. The Committee also noted the use of benchmarks, temporal comparisons, or achievement against stated goals (referred to in this paper as “reference points”) as required by TI904 and the inclusion of explanatory notes (Pearson, 1993).

Third, the Committee analysed the content of the efficiency indicators. The Committee noted whether the indicators related outputs to inputs (Armstrong, 1994), the use of reference points, and the inclusion of explanatory notes.

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1. Programme objective state outcomes.
 2. Programme objectives identify programme population.
 3. Performance indicators have been developed.
 4. Effectiveness indicators are presented at programme level.
 5. Efficiency indicators are presented at the programme level.
 6. Effectiveness indicators are presented at the sub-programme level.
 7. Efficiency indicators are presented at the sub-programme level.
 8. Effectiveness indicators reflect objectives.
 9. Effectiveness indicators are outcomes.
 10. Effectiveness indicators use reference points.
 11. Effectiveness indicators include explanatory notes.
 12. Efficiency indicators relate outputs to inputs.
 13. Efficiency indicators use reference points.
 14. Efficiency indicators include explanatory notes.
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Figure Three: Parameters of the Analysis

4.3 RESULTS

(a) Presentation of Performance Indicators.

All of the agencies examined except one had developed performance indicators for the 1993/94 year¹. Six of these agencies presented both effectiveness and efficiency indicators for all programmes, and six agencies presented no effectiveness or efficiency indicators at the programme level. Two agencies presented both effectiveness and efficiency indicators for all sub-programmes and 14 agencies presented no efficiency or effectiveness indicators at the sub-programme level. Four agencies presented no effectiveness or efficiency indicators at either the programme or sub-programme level.

	All sub/programmes (No of agencies)	Some sub/programmes	No sub/programmes
Indicators presented at: Programme level	10	6	7
Sub-programme level	5	4	14
	All/sub/programmes (No of agencies)	Some sub/programmes	No sub/programmes
Indicators presented at: Programme level	7	9	7
Sub-programme level	2	4	17

Figure Four: Presentation of Performance Indicators at the Programme and Subprogramme level

(b) Effectiveness Indicators:

Twelve agencies (52%) presented effectiveness indicators which reflected all of the objectives presented (which may or may not have been the programme or sub-programme objectives). Seventeen agencies (74%) used effectiveness indicators which reflected the achievement of outcomes (as opposed to the implementation of strategies). This was true of all of the effectiveness indicators for only ten agencies (43%). Eleven agencies (48%) incorporated some form of reference point in all effectiveness indicators, and nineteen agencies (83%) included explanatory notes.

	All indicators (No of agencies)	Some indicators	No indicators
Effectiveness indicators reflect objectives	12	4	7
Effectiveness indicators reflect outcomes	10	7	6
Effectiveness indicators reference points	11	5	7
Effectiveness indicators include explanatory notes	19	-	4

Figure Five: Analysis of Effectiveness indicators

¹ The following results, including percentages, exclude the one agency which did not present performance indicators in any form.

(c) Efficiency Indicators.

Fifteen agencies (65%) related outputs to inputs for all efficiency indicators. Thirteen agencies (57%) incorporated reference points, and fourteen agencies (61%) included explanatory notes for all efficiency indicators.

	All indicators (No of agencies)	Some indicators	No indicators
Efficiency indicators relate output to inputs	15	3	5
Efficiency indicators use reference points	13	4	6
Efficiency indicators include explanatory notes	14	3	6

Figure Five: Analysis of Efficiency Indicators.

(d) Programme Objectives.

Fourteen agencies (58%) expressed all programme objectives in the form of outcomes. It should be noted, however, that the programme objectives for almost all agencies were an expression of both outcomes to be achieved and the strategies to be undertaken in order to achieve them. The implications of confusing outcomes and outputs in the programme objectives are discussed in the conclusion below. Sixteen agencies (67%) identified a programme population in all programme objectives.

5. RECOMMENDATIONS AND CONCLUSION

The above analysis is intended as a indication of the progress of the development of performance indicators in the Western Australian public sector. During the course of the analysis, the Committee noted a small number of agencies which had presented performance indicators that directly reflected the programme structure, described the achievement of intended programme outcomes and efficiency ratios against meaningful benchmarks or precedents, and included explanatory notes which explained the derivation of the measures used. As an interested party external to these organisations, the Committee found these indicators to be appropriate and meaningful information regarding agency performance.

The Committee notes, however, a marked lack of progress among some agencies, and is particularly concerned that, although all but one agency had presented indicators in some form, four agencies presented no effectiveness or efficiency indicators at either the programme or sub-programme level. The Committee observed that, where performance indicators did not correspond with the programme and sub-programme structure, they were often based on alternative objectives. The Committee does not consider it acceptable that agencies provide indicators that do not directly reflect the programme and sub-programme structure detailed in the annual Consolidated Fund Estimates. Agency funds are appropriated “for the recurrent services and purposes expressed in Schedule 1 and detailed in the Estimates for the year” (c14, Appropriation (Consolidated Fund) Bill 1994). It is appropriate and necessary that agencies account for the effectiveness and efficiency with which they applied these funds according to the purpose for which they were appropriated.

The results of the analysis suggest a number of factors that appear to frustrate the development of agency performance indicators. The Committee deals with these below.

5.1 Programme Objectives.

It is noted above that many of the programme objectives examined are a mixture of strategies and outcomes. Agencies typically state, for example, that they intend to undertake a range of activities in order to achieve a desired outcome. Such presentation of a programme objective frustrates agencies' subsequent attempts to derive effectiveness indicators from the objective. Indeed, Pearson (1994) observes that the development of "clear objectives which focus on customer needs and intended results" is a significant factor in the successful development of performance indicators in the Western Australian public sector.

Effectiveness indicators derived from poorly formulated objectives typically provide the evaluator with information regarding the extent to which outputs have been produced, rather than whether outcomes have been achieved. Such a narrow evaluation focus can encourage any agency, private or public, to distort priorities. The consequences of poorly formulated or inappropriate objectives and performance measure is illustrated by performance results recorded by an agency in the United Kingdom. The official unemployment count in the United Kingdom fell inexplicably at an early stage in the latest economic recovery. One explanation for the fall was that benefits claimants were being referred to their GPs so they could qualify for sickness or invalid benefits, thus enabling the Employment Service to meet their own targets (Tucker, 1993).

Given the large proportion of agencies in the current review that fail to make the distinction between outcomes and outputs in the programme objective and, consequently, provide inappropriate performance indicators, the Committee considers that further effort by the central government agencies to assist agencies in this regard is required.

The Committee recommends that the central government agencies work with agencies to improve the presentation of programme objectives in terms of the specification of desired outcomes.

5.2 Programme Outcomes

A common disclaimer presented by agencies as a preface to the performance indicators is that it is not possible to develop meaningful indicators for a programme, as the programme is not the sole factor that influences the programme objective. The Committee is sympathetic to this claim, and notes that programme objectives which, appropriately, only describe programme outcomes can themselves frustrate meaningful evaluation of agency performance. Laking (1993) observes that many objectives or outcome statements "are, at best, only very high level guidance to the evaluator as to the intent of the output and, at worst, simply superficial pieties." To illustrate this point, Laking cites the New Zealand justice and correctional services objective to provide "a just and humane correctional system that incorporates the elements of deterrence, punishment, treatment, education, and rehabilitation". Such objectives, while accurately identifying outcomes, are at odds with demands that they also be measurable.

The performance indicator model presented in Armstrong (1994) provides for a single programme outcome. The Committee believes that programme outcomes may be alternatively conceptualised as a hierarchy of goals to be attained in the process of achieving an agency's end goal, or impact in the community. The Quit campaign, for example, may aim to reduce smoking behaviour in Western Australia, but is one of many factors that may influence smoking behaviour in the Western Australian population. Population smoking trends, therefore, will not necessarily be an accurate reflection of the campaign's effectiveness. Effectiveness indicators that measure the outcomes of activities undertaken as part of the campaign may better reflect the programme's achievements.

For the Quit campaign, for example, such secondary measures may include:

- the number and percentage of participants and participating workplaces compared with previous campaigns;
- the number and percentage of Western Australians aware of the campaign compared with previous years and other states; and
- the number and percentage of Western Australians who state that their smoking behaviour has been influenced by the campaign.

While these measures do not give an external evaluator direct information regarding the smoking behaviour trends in the Western Australian population, the success of the campaign in achieving this end effect can be inferred.

The concept of a hierarchy of outcomes was raised by Pearson in 1992 and has been partially dealt with by the Public Sector Management Office. Indeed, the above example has been derived from Armstrong (1994), who acknowledges the difficulty in measuring some outcomes. The Committee believes that this difficulty needs to be acknowledged further by extending the Public Sector Management Office model to clearly incorporate a hierarchy of outcomes (Figure Six).

In this model, the desired outcomes are presented as a hierarchy of goals that will be achieved in the course of achieving the end goal, or the programme objective. It should be noted that such outcomes are necessarily expressed in terms of the programme population. Achievements that do not result in an effect on the programme population *per se*, for example, the development of a campaign strategy, are outputs as described in Armstrong (1994). Pearson (1994) makes a similar distinction between “key” and “operational” indicators. It should also be noted that this model does not replace the Public Sector Management Office model detailed in Armstrong (1994), but builds on that model to incorporate a broader definition of outcomes.

The Committee recommends that the current performance indicator model be revised to give consideration to incorporating a hierarchy of outcomes as illustrated below.

PROGRAMME OBJECTIVE	DESIRED OUTCOME	PERFORMANCE INDICATOR
	4. Reduction in the number of Western Australians who smoke.	Number and percentage of Western Australians surveyed who smoke compared with previous years.
	3. Western Australian smokers are influenced by the campaign.	Number and percentage of participants who say that their smoking behaviour has been influenced by the campaign compared with previous years.
	2. Western Australian smokers are participating in the campaign.	Number and percentage of Western Australian smokers participating in the campaign compared with previous years.
	1. Western Australian smokers are aware of the Quit campaign.	Number and percentage of Western Australian smokers surveyed who are aware of the campaign compared with previous years.

Figure Six: Hierarchy of Outcomes

5.3 Leadership

The Committee is concerned that the results of the current review suggest a lack of agency understanding of the constructs underpinning the Public Sector Management Office performance indicators model and a lack of skills in applying the model to agency activities. The specification of outcomes, development of corresponding effectiveness indicators, failure to distinguish between effectiveness and efficiency indicators, and the absence of reference points and explanatory notes are some aspects of the presented indicators which suggest a need for further skill development. The Committee observes that the development of such skills is also salient to the successful implementation of contractual service provision.

The Committee is aware of publications and workshops published and conducted by the Department of Treasury and the Public Sector Management Office to assist agencies in programme management and evaluation. The Committee is of the opinion, however, that these are not sufficient to adequately develop agency knowledge of evaluation methods and skills in applying evaluation techniques to their particular operating environment and activities. It is not the Committee's intention to suggest that individual central agencies are at fault for adopting an inadequate approach to assisting other agencies in implementing programme evaluation and reporting. Rather, the Committee has observed a lack of leadership in this regard.

As with any organisational development in the private or public sector, it is essential that change is driven by a commitment from organisational leaders and that this commitment is reflected in appropriate financial support and skills training. The Committee notes the Commonwealth's Management Advisory Board's (1993) comments regarding the importance of central agency leadership in the form of guidance and assistance to other agencies implementing public sector reforms. The Committee considers it essential that responsibility for this leadership role is clearly defined and resourced.

The Committee recommends that the Minister for Public Sector Management assume a leadership role in the development and reporting of performance information by clearly defining central agency responsibility for policy development, training, and progress monitoring, and appropriately resourcing these activities.

5.4 Treasurer's Instructions

The Committee has noted above that Treasurer's Instruction 904 provides some guidelines for agencies in formulating performance indicators. The Committee is concerned that the four "qualitative characteristics" cited in the Treasurer's Instructions are only an indirect reflection of evaluation principles. Evaluation or measurement tools should be both valid (measure what they intend to measure) and reliable (produce the same result across independent applications) if the agency is to have any confidence in the evaluation results. The constructs of validity and reliability are understood and accepted evaluation principles. The use of accepted constructs and nomenclature can only be of assistance to agencies in developing meaningful performance indicators and would also provide central agencies with a basis for providing education and training regarding appreciation of evaluation methods and principles. Further, a revision of T1904 would prove opportune for incorporating the constructs embodied in the performance indicators model.

The Committee recommends that Treasurer's Instruction 904 be revised with a view to incorporating accepted evaluation principles and nomenclature and the constructs embodied in the performance indicators model.

5.5 Conclusion

Evaluation and reporting is considered to be an integral part of any well-managed project or programme of activity. Too often, however, evaluation assumes a poor second place to programme development and implementation. A well-managed evaluation strategy can contribute to programme development and implementation by forcing an awareness of the outcomes to be achieved and the criteria for evaluating their achievement. In this climate of public sector reform, clear specifications of the service to be delivered by agencies (and sub-contractors to agencies) and the use of valid and reliable indicators of agency (and sub-contractor) performance are of particular importance. The current international trend towards redefining the role of government as a public purchaser of goods and services, as opposed to that of a provider, demands that such tools are employed in the interests of achieving and maintaining genuine public sector accountability.

While performance reporting has certainly advanced within the Western Australian public service since this requirement was introduced in 1985, the Committee is of the opinion that a number of factors are hindering the successful implementation across all agencies. Not the least of these are the need for central agency leadership and the development of the requisite skills at agency level to prepare appropriate programme objectives and produce corresponding performance information. The Committee calls on the government to ensure that the responsibility for leadership in public sector programme evaluation and performance reporting is clearly defined and appropriately resourced.

ATTACHMENT A

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