

1 Executive summary

1.1 Introduction

Performance reporting by councils changed in 2004–05 with the passage of the *Local Government (Democratic Reform) Act 2003*.

A new approach to annual performance reporting was introduced by the Act, based on the concept of ‘key strategic activities’ (KSAs), as set out in each council’s annual budget. The Act also introduced the requirement to prepare a four–year council plan, containing strategic objectives and indicators to measure achievements.

As it has been three years since these reforms were introduced, it is timely to review their impact on local government performance reporting.

1.2 Audit objective

The audit objective was to assess the effectiveness of councils’ performance reporting, with particular emphasis on the audited performance statements included in council annual reports.

In addressing this objective the audit considered whether the performance information was useful and whether key elements of the framework established in each council support performance reporting.

1.3 Key findings

Relevance

Most councils’ non-financial performance data is of limited relevance to ratepayers and residents, the principal users of that data.

Performance information is generally not being provided on the timeliness, cost, quantity or quality of council services, on achieved outcomes, or on achieving strategic objectives.

The performance indicators being reported are activity-based and generally only measure one metric—time. In many cases the nexus between the indicator and the activity is very indirect and of questionable relevance.

Appropriateness

Most councils are not providing enough appropriate information to users about the performance measures they have adopted. This means that users are not able to meaningfully assess councils' performance.

The lack of clarity around measures and targets; the paucity of explanation of variances; and the failure to include trend and benchmark data can indicate that councils have adopted a 'compliance-centric' approach to reporting performance information. They rarely go beyond the legislative imperative and, where there are no specific requirements, adopt a practice of minimalist disclosure.

Presentation

The performance measures reported can be reliably measured. However, this must be considered in the context that many performance measures are neither relevant nor appropriate.

One inference that can be made is that councils select indicators because they can be easily measured, not because they are the right things to measure.

Policies and standards

In contrast to financial reporting, there are no independent, authoritative standards for performance reporting. There is also no generally accepted conceptual framework that identifies essential characteristics of performance reporting.

This situation is mirrored at council level, where the development of appropriate policies is either very limited or non-existent.

Organisational capabilities

In most cases councillors and council staff are not equipped with the knowledge and skills required to fully understand and develop appropriate performance reports.

1.4 Overall conclusions

The performance statements prepared by councils generally fail key tests of usefulness. They contain information that is largely irrelevant and inappropriate to users needs. The failure to include critical performance information and explanations makes it difficult for ratepayers and residents to hold their elected representatives fully accountable.

Through their reporting approaches councils have taken a very narrow view of their performance reporting obligations—treating the minimum mandatory legal requirements as the maximum disclosure standard.

Councils have not established key elements of the frameworks necessary to support the development of useful performance information.

1.5 Recommendations

- All councils critically review the performance information in their annual reports to ensure it is:
 - relevant and appropriate
 - presented in a comprehensible form. **(Recommendation 3.1)**
- Regulations be issued establishing minimum standards for the form and content of performance statements. **(Recommendation 4.1)**
- All councils document and approve performance reporting policies and standards. **(Recommendation 4.2)**
- Councillors and council staff involved in performance reporting are given appropriate training on performance measurement and management. **(Recommendation 4.3)**

RESPONSE provided by the Secretary, Department of Planning and Community Development

My Department, through Local Government Victoria, will continue to work with the peak bodies to help councils improve their performance reporting and use of indicators.

I support the recommendation to establish minimum standards for the form and content of performance statements. Regulations are one way to do this, guidelines are another. Whether or not regulations are the best means of doing this will need to be subject to consultation with the sector.
