Centrelink's Balanced Scorecard

Australian National
Audit Office

Canberra   ACT
30 September 2002

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General ACT 1997.* I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Centrelink's Balanced Scorecard.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra   ACT

Audit Team
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Contents

Abbreviations/Glossary

ANAO	Australian National Audit Office
APS	Australian Public Service
ASO	Area Support Office
AWT	Australian's Working Together
BIPs	Business Improvement Plans
BPA	Business Partnership Agreement
BSC	Balanced Scorecard
CSC	Customer Service Centre
DEST	Department of Education, Science and Technology
DEWR	Department of Employment and Workplace Relations
FaCS	Department of Family and Community Services
Finance	Department of Finance and Administration
KPI	Key Performance Indicators
NSO	National Support Office
PBS	Portfolio Budget Statement
PDMS	Performance Data Management System
SES	Senior Executive Service
SIS	Service Integration Shop

Centrelink's Balanced Scorecard

Summary

Summary

Introduction

1.   The successful achievement of outcomes and delivery of services has become increasingly complex for business and the public sector, including the Australian Public Service (APS).

> Since the late 1980s, a growing number of managers at the corporate and business unit levels have concluded that traditional management and financial accounting fails to give them complete information for managing their companies[1].

2.   The Balanced Scorecard (BSC) has evolved since it was first developed as a framework for measuring organisational performance. Kaplan and Norton[2] stated that they have 'refined the BSC concept and showed how it could move beyond a performance measurement system to become the organising framework for a strategic management system'. The purpose of this later model BSC is to help managers articulate and communicate the vision and strategy for the organisation, and monitor whether objectives have been set and the extent to which planned actions to achieve them are working.

3.   Centrelink is a statutory agency within the Family and Community Services (FaCS) portfolio and was established on 1 July 1997. It operates under purchaser/provider arrangements with more than 20 client agencies. It provides services for these client agencies to more than 6.3 million customers through a network of Area Support Offices (ASO), Customer Service Centres (CSC) and Call Centres located around Australia. Centrelink employs approximately 24 000 staff.

4.   A Board of Management (the Board) governs Centrelink and is accountable through the Chairman to the Minister.

5.   Centrelink decided soon after its establishment to use the BSC and planning commenced in December 1997. Centrelink states that the BSC is its key instrument for measuring and reporting its performance, is the primary tool for communicating and understanding performance, and provides the information necessary to focus future performance improvement efforts[3]. Further information on the development and use of the BSC is contained in Appendix 2.

6.   The development and implementation of the BSC in Centrelink was a complex task given the number of client agencies, other stakeholders (including

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[1]   CPA Australia, *Applying the Balanced Scorecard*, Melbourne 2001, p. 3.

[2]   ibid.

[3]   Letter from Centrelink of 11 June 2002.

Parliament, the Minister and the Centrelink Board) and customers, as well as the range of services provided. In addition, changes in the external environment and ongoing change within the internal operating environment pose a challenge to sound performance management. Centrelink acknowledges[4] that 'maintaining the relevance and dynamics of the scorecard is an important challenge in a changing environment'.

Audit objective, criteria and methodology

7.   The objective of the audit was to assess whether Centrelink's BSC was based on key elements of better practice principles and its use assists Centrelink to understand and communicate its performance against its strategic goals.

8.   The criteria developed for this audit were based on a literature review (see the Bibliography), expert advice, previous experience in the use of performance information and Centrelink's own expectations of the way the BSC would assist them in performance management. The major issues encompassed by the criteria were:

• setting the vision and goals;

• the role of the BSC in planning;

• alignment of the BSC from the top down through the organisation and the interdependencies of scorecards used by various support units;

• the definition and use of measures, including target setting and links to goals; and

• monitoring, reporting and feedback.

9.   In establishing the criteria for this audit, the Australian National Audit Office (ANAO) recognised that there is no one right way to develop and use the BSC and agencies need to adapt it to their particular circumstances. However, there are some principles that underpin the BSC approach and these are embodied in the audit criteria.

10.   The methodology involved:

• a detailed review of Centrelink's Strategic Framework and planning documentation to track the alignment of the vision and strategy both vertically and horizontally through the levels of planning to the performance measures used to assess achievement of Centrelink's goals;

• the conduct of interviews with key people within Centrelink to assess their understanding and views on the value of the scorecards used in Centrelink;

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4   The Centrelink Balanced Scorecard, *Evolving the Concept*, August 2001, p. 2.

- an examination of the monitoring and review activity to assess the feedback loop from the scorecards to business and strategic level planning aimed at improving performance. This included an examination of the flow of information relating to performance, particularly papers provided to, and minutes of, the Board, Guiding Coalition Meetings[5], meetings of Area Managers and to other levels; and

- an assessment of elements of Centrelink's Performance Data Management System (PDMS) including management definitions, business rules, service level agreements with measure owners and data quality assurance arrangements.

Overall conclusion

11. The ANAO concluded that the Centrelink BSC was focussed on operational effectiveness and particularly on achieving client departments' key performance indicators (KPIs). Achieving these KPIs represented Centrelink's 'bottom line'.

12. The BSC demonstrated many elements of better practice in that it was:

- part of a robust planning framework which contained all the expected elements, including reference to stakeholders, plans at strategic, business and operational levels, risk assessment and treatment, reference to performance monitoring and reporting feedback loops;

- based on Centrelink's six strategic goals and therefore clearly linked to its Strategic Directions for 2001–06;

- used for monitoring and reporting purposes including for the Annual Report. At ASO and CSC level, it was being used for frequent monitoring (that is, daily and weekly) to identify the causes of both good and poor performance as a basis for making improvements;

- available on-line throughout Centrelink via the PDMS which provides information at each level so that all business units can prepare their own detailed reports on particular aspects of performance. It also allows comparisons to be made with other groups with similar characteristics (that is, inner city CSCs) as a basis for improvement; and

- reviewed regularly to ensure continued relevance.

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5   The Guiding Coalition is Centrelink's Management Committee, comprising all senior executives in Centrelink.

13. The ANAO concluded that there were opportunities for Centrelink to improve its BSC by:

- refining the various statements of intent (purpose, vision, mission, goals, objectives) to provide a clearer focus on what was to be achieved by staff at all levels of administration;

- appropriately linking Centrelink's six strategic goals (contained in Strategic Directions 2001-06) and eight business objectives (contained in the Business Plan 2001-04 and Business Improvement Plans) so that the links between them were clear to all staff across Centrelink. This would also assist Centrelink to more clearly specify the contribution made by each level of administration, particularly National Support Office (NSO), to the achievement of its goals; and

- revising performance information, as necessary, so that performance can be assessed quantitatively and/or qualitatively, and ensuring the appropriate balance between lead and lag indicators.

14. At the time of the audit fieldwork, Centrelink was conducting a BSC review in conjunction with a major review of its Strategic Directions 2001–06 and business planning. If undertaken and implemented appropriately, these reviews should address the issues raised in this audit report.

15. Other APS agencies can benefit from an understanding of the issues Centrelink has faced in implementing a sound BSC approach. As well, to provide further assistance, the ANAO has set out in Appendix 1 an approach to developing a strategic BSC which provides useful information for agencies considering the use of a BSC or improvements to an existing BSC.

Centrelink response

16. Centrelink notes that the report of the Australian National Audit Office is a constructive and useful document that will be helpful to Centrelink in progressing Centrelink's review of its strategic framework.

17. Centrelink notes that the report focuses on the BSC whilst encompassing its overall planning framework. Centrelink generally accepts the direction of the suggestions made, which are consistent with the approach being developed in the major review of Centrelink's framework currently underway.

18. Centrelink also notes that the integration of goals and objectives will further improve its business planning process. Centrelink will be seeking to redress the issue of a lack of a coordinated set of National Support Office measures and will be continuing to develop its strategic cost management framework. From this framework financial measures will be developed for inclusion in the BSC to reflect Centrelink's broad operational objectives.

Key Findings

Planning (Chapter 2)

19. The ANAO found that the role of the Balanced Scorecard (BSC) as a tool focussed on operational effectiveness was clearly specified. There was room to refine the various statements of intent (that is, purpose, vision, mission, goals, objectives) to provide a clearer focus on what was to be achieved by staff through all levels of administration and a clearer basis for the alignment of goals and priorities. In this regard Centrelink advised the ANAO that it considered there was scope to reduce the number of terms used in the Strategic Directions 2001–06 and to clarify the meanings of those terms that are used so that, for example, the term 'outcome' cannot be subject to different interpretations.

20. Centrelink's Strategic Directions 2001–06 were based on its six goals, but its Business Plan and Business Improvement Plans (BIPs) were based on eight objectives. Therefore, the links between the two plans were not clear to all staff at all levels of administration. While Centrelink had developed a table and some mapping to demonstrate these links, it advised that further work was being undertaken to strengthen and improve these links.

21. In relation to the contribution made by each level of administration, the BIPs indicated contributions made by each level of administration to business objectives. This means that the plans did not specify the contribution of each level of administration to the strategic goals and did not therefore link them directly to the BSC.

Centrelink response

22. Centrelink agrees with the findings, and as part of the current review, Centrelink has now developed a working model with one integrated set of goals to replace the former goals and objectives in Strategic Directions, the Business Plan and Business Improvement Plans. Centrelink also acknowledges the lack of a coordinated set of National Support Office measures and is seeking to redress this in the current review.

Use of the BSC (Chapter 3)

23. The BSC was framed around Centrelink's six strategic goals. The ANAO found that there were therefore clear links between the BSC and Centrelink's goals. Because business and operational planning was based on the eight business objectives, not all links were clearly made to the BSC and well understood throughout Centrelink.

24.   Although cause and effect relationships had not been explicitly established in all cases through the use of detailed strategy mapping, the ANAO found that managers were examining performance information to identify the causes of both good and poor performance as a basis for making improvements.

25.   Centrelink was undertaking appropriate monitoring and reporting against the BSC. As with any organisation, there were some areas where the performance information, which underpins such monitoring, required improvement. Minutes of the Quality Committee/Board should desirably contain more detail of key decisions and action taken to increase accountability and improve communication.

Centrelink response

26.   Centrelink agrees with the findings from chapter 3 other than, Centrelink notes that the Board and the Board Committees use the BSC as a general assurance and performance monitoring and information tool. The Board, in particular, deals with performance issues largely on an exception basis and this is reflected in the minutes. The fora for more detailed discussions on the BSC are the Performance Management Meetings. All Area Managers and Business owners attend these.

Centrelink's Planned Course of Action (Chapter 4)

27.   The proposed course of action that Centrelink has indicated it plans to take draws on the findings of its Internal Audit group, the ongoing review of the BSC, the latest ideas emerging in the literature and the findings of this audit. If Centrelink undertakes the review as specified in chapter 4 and deals with issues related to data validation (chapter 3), the ANAO considers that it will have addressed the issues raised by this audit.

Centrelink response

28.   Centrelink notes the findings.

Audit Findings
and Conclusions

1. Introduction

This chapter provides background information in relation to Centrelink, the audit objective, scope and methodology. It also outlines the structure of the report.

The Balanced Scorecard

1.1   The successful achievement of outcomes and delivery of services has become increasingly complex for business and the public sector, including the Australian Public Service (APS).

> Since the late 1980s, a growing number of managers at the corporate and business unit levels have concluded that traditional management and financial accounting fails to give them complete information for managing their companies[6].

1.2   There are a range of approaches, which can be used to address this issue, one of which is the Balanced Scorecard.

1.3   Kaplan and Norton first conceptualised the Balanced Scorecard (BSC) in the early 1990s to deal with the problem of not having complete information. The BSC was originally designed to be a means of quantifying those factors omitted by traditional financial measures. The framework promulgated in 1992[7] had four perspectives, including three perspectives that focused on non financial measures as set out in Figure 1.1.

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[6]   CPA Australia, *Applying the Balanced Scorecard*, Melbourne 2001, p. 3.

[7]   Kaplan and Norton, 1992, *The Balanced Scorecard—Measures that drive performance,* (Harvard Business Review, January-February.

Figure 1.1
The Balanced Scorecard Framework

	Financial perspective the strategy for growth, profitability and risk received from the shareholder perspective	
Learning and growth the priorities to create a climate that supports organisational change, innovation and growth		**Customer perspective** the creation of value and differentiation from the perspective of a customer
	Internal business process perspective the strategic priorities for various business processes which create customer and shareholder satisfaction	

1.4 The BSC has evolved since it was first developed as a framework for measuring organisational performance. Kaplan and Norton[8] stated that they have 'refined the BSC concept and showed how it could move beyond a performance measurement system to become the organising framework for a strategic management system'. The purpose of this later model BSC is to help managers articulate and communicate the vision and strategy for the organisation, and monitor whether objectives have been set and the extent to which planned actions to achieve them are working.

Centrelink

1.5 Centrelink is a statutory agency within the Family and Community Services (FaCS) portfolio and was established on 1 July 1997. It operates under purchaser/provider arrangements with more than 20 client agencies. It provides services for these client agencies to more than 6.3 customers through a network of Area Support Offices (ASO), Customer Service Centres (CSC) and Call Centres located around Australia. Centrelink employs approximately 24 000 staff.

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[8]   ibid 1, p. 3.

1.6   A Board of Management[9] (the Board) governs Centrelink and is responsible for:

- ensuring corporate governance frameworks are in place;

- determining corporate strategy;

- providing guidance and oversight to senior management in the delivery of the service charter; and

- reviewing overall business strategies, business plans and significant policies to ensure Centrelink's obligations to its client agencies and other stakeholders are fulfilled.

1.7   The Board is accountable for these outcomes through the Chairman to the Minister.

1.8   Centrelink decided soon after its establishment to use the BSC and planning commenced in December 1997. Centrelink states that the BSC is its key instrument for measuring and reporting its performance, is the primary tool for communicating and understanding performance, and provides the information necessary to focus future performance improvement efforts. Further information on the development and use of the BSC is contained in Appendix 2.

1.9   The first version of the BSC was introduced in July 1998. The BSC was framed around five of Centrelink's six strategic goals, as follows:

- client partnerships—to meet contractual agreements with client agencies and to deliver value for money;

- customers and community—to meet their service expectations and help them meet their obligations;

- people—for staff to have the skills, values and behaviours to do their job effectively;

- cost efficient organisation—to operate within its budget and meet required efficiency dividends to government; and

- innovative organisation—to invest in projects that deliver improved outcomes for stakeholders.

1.10   The achievement of the sixth goal 'to be first choice and benchmarked as the best practice in service delivery', is reliant on successful performance against the other five goals.

1.11   The development and implementation of the BSC in Centrelink is a complex task given the number of client agencies, other stakeholders (including

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9   Taken from *Boardtalk*, Centrelink, undated pp. 1-2.

Parliament, the Minister and the Centrelink Board) and customers, as well as the range of services provided. In addition, changes in the external environment and ongoing change within the internal operating environment pose a challenge to sound performance management. Centrelink acknowledges[10] that 'maintaining the relevance and dynamics of the scorecard is an important challenge in a changing environment'.

1.12   To maintain the relevance of the BSC, Centrelink undertook a major internal review in March 1999 which aimed to achieve:

- greater acceptance of the scorecard as a planning and monitoring tool;

- more relevant measures;

- an improved understanding across the organisation of the alignment between the scorecard, corporate goals and local planning; and

- integration of the scorecard within a coherent performance information infrastructure.

1.13   A further independent review was underway at the time the fieldwork for this audit began. The issues that arose during the first phase of this review were taken into account when writing this audit report.

1.14   Centrelink views the scorecard as an integral part of its performance management process. Monthly BSC reports are provided to the Board. Every six weeks ASO managers and Community Segment leaders (the latter are managers responsible for a particular service within the National Support Office who negotiate with client agencies) meet to discuss Scorecard results and those parts of the business that need improvement. As well, the BSC is the major component of the performance reports provided in Centrelink's Annual Report to Parliament.

1.15   In April 2001, Centrelink began using a web-based automated system, the Performance Data Management System (PDMS) to facilitate data collection and provide information on levels of performance achieved via the Intranet to all staff.

The audit

Audit objective

1.16   The objective of the audit was to assess whether Centrelink's BSC was based on key elements of better practice principles and its use assists Centrelink to understand and communicate its performance against its strategic goals.

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[10]   The Centrelink Balanced Scorecard, *Evolving the Concept,* August 2001, p. 2.

Audit scope

1.17 The scope of the audit included an examination of the National BSC and scorecards that had been established at the Area (Area Support Offices) and local level (Customer Service Centres). This allowed the ANAO to examine the use and effectiveness of the BSC throughout Centrelink's levels of administration and across its delivery network (around 300 sites across Australia). The audit also included an examination of some functional scorecards for business support services. A functional scorecard is usually developed by groups within an agency, such as Information Technology or Human Resources Management, so that their specific contribution to the agencies goals can be clearly specified and measured. A list of the ASO and CSC visited by the ANAO is at Appendix 3.

Audit criteria

1.18 The criteria developed for this audit were based on a review of the literature (see the Bibliography), expert advice, previous experience in the use of performance information and Centrelink's own expectations of the way the BSC would assist them in performance management. The major issues encompassed by the criteria were:

- setting the vision and goals;

- the role of the BSC in planning;

- alignment of the BSC from the top down through the organisation and the interdependencies of scorecards used by various support units;

- the definition and use of measures, including target setting and links to goals; and

- monitoring, reporting and feedback.

Audit Methodology

1.19 The methodology involved:

- a detailed review of Centrelink's Strategic Framework and planning documentation to track the alignment of the vision and strategy both vertically and horizontally through the levels of planning to the performance measures used to assess achievement of Centrelink's goals;

- the conduct of interviews with key people within Centrelink to assess their understanding and views on the value of the scorecards used in Centrelink;

- an examination of the monitoring and review activity to assess the

feedback loop from the scorecards to business and strategic level planning aimed at improving performance. This included an examination of the flow of information relating to performance, particularly papers provided to, and minutes of, the Board, Guiding Coalition Meetings, meetings of Area Managers and to other levels; and

- an assessment of elements of Centrelink's PDMS including management definitions, business rules, service level agreements with measure owners and data quality assurance arrangements.

1.20 The ANAO also consulted with Centrelink's two main purchasers, the Departments of Family and Community Services and Employment and Workplace Relations.

Assistance to the audit

1.21 Assistance was provided by Mr Henrik Andersen, the Australian representative of 2GC Active Management, a consulting company specialising in issues relating to BSC implementation. Mr Andersen assisted with the development of the criteria and the conduct of the audit.

1.22 Dr Jenny Stewart, National Institute of Governance at the University of Canberra provided input to the preliminary work undertaken to develop the audit criteria and methodology.

1.23 The audit was undertaken in accordance with Auditing Standards at a cost of $260 000.

The report

1.24 Chapter 2 discusses Centrelink's planning framework. Performance management using the BSC is outlined in chapter 3. Chapter 4 provides information from Centrelink regarding their planned course of action to further improve the BSC. Appendix 1 sets out a theoretical model for the development of a strategic BSC linked to the outcomes/outputs framework. The development of the latter is a requirement for APS agencies.

1.25 As stated above there is no one right way to develop a BSC. The ANAO has, therefore, highlighted issues that have arisen in the BSC development and implementation in a large public sector agency. The report should assist other agencies that are implementing and/or further developing their own BSCs.

2. Planning

This chapter discusses Centrelink's planning framework, including strategic, business and operational plans and the establishment of the Balanced Scorecard.

Introduction

2.1   A key element of sound corporate governance for any organisation is to establish an appropriate planning regime. The effective use of the Balanced Scorecard (BSC) supports a sound planning regime:

•   at the strategic level by translating the agency's vision into the high level priorities that have to be realised for that agency to be successful in meeting its longer term goals; and

•   at the operational level by defining those activities that need to be undertaken at the lower levels to achieve the agency's goals. The BSC also provides the mechanism to monitor whether the goals are being achieved in practice.

2.2   In the case of Centrelink, the ANAO examined whether:

•   the role of the BSC was appropriately specified;

•   there was a clear and unambiguous statement or starting point which set out what the agency wanted to accomplish; and

•   the plans and BSC were linked through each level of planning so that the contribution of each level of administration to the overall goals was identified.

2.3   The ANAO notes that Centrelink's Internal Audit had undertaken a review of its planning regime, *Internal Audit Report,* December 2001. As well, an independent review of the BSC was being undertaken at the time of the audit fieldwork. The first phase of the review was reported in May 2001. The comments and findings of these reviews have been considered, where relevant, in the discussion below.

2.4   Centrelink's planning framework as it existed at the time of the audit fieldwork is set out in Figure 2.1.

Figure 2.1
Elements of Centrelink's Strategic and Business Planning 2001–2006
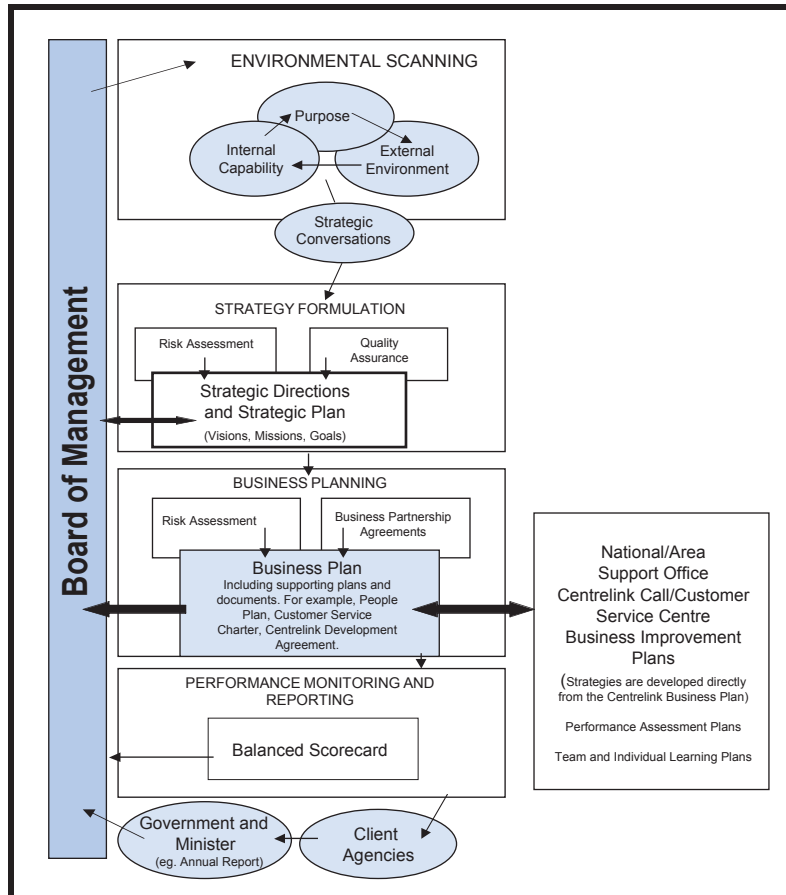
Source: Figure 2.1 is based on material contained in Centrelink's Strategic
Directions 2001–06, p. 9 and Centrelink's Guide to Business
Improvement Plans 2001–02, p. 2.

Role of BSC

2.5   Centrelink has a Strategic Directions 2001–06 document that sets out
Centrelink's purpose, vision, mission and outcome/output statement. Its
corporate values are set out in sections on shared behaviours, the customer
charter and quality first policy.

2.6   It outlines the purpose of the BSC as being the primary tool for
communicating and understanding performance.

2.7   As can be seen from Figure 2.1, Centrelink's planning framework is robust
and contains reference to stakeholders, plans at the strategic, business and

operational levels, risk assessment, reference to performance monitoring and reporting feedback loops. At the time of the audit the BSC was placed at the operational level within the framework. Establishing the BSC at this level has been an important first step to assist in developing a performance culture, communicating the agency's goals and assisting with understanding the BSC throughout Centrelink. It is also not uncommon to establish the BSC at the operational level in the first instance. This is an approach that is used by many agencies to drive change management.

2.8   Introducing the BSC at this level was particularly important for Centrelink in its early days to begin to instil a performance culture among its 24 000 staff in a network of offices across Australia. A critical consideration for Centrelink, at the time it was established, was the need to have a performance management tool in place to ensure effective delivery of services on behalf of client departments. The BSC provided that tool.

2.9   Centrelink advised that in its view, the particular formulation of the BSC has:

> ... been effective in driving increased operational effectiveness, from a client agency perspective, while developing an appropriate focus on satisfying customer needs. Despite the addition of a number of new Key Performance Indicators (KPIs) associated with new business, Centrelink's performance against client agency KPIs has increased from 61 per cent in 1999–2000, to 77 per cent in 2000–01, and to 91 per cent in 2001–02. In addition, Centrelink has returned efficiency dividends of $826m since its inception.[11]

2.10   As well as the recent reviews mentioned in 2.3, Centrelink has conducted several reviews of the BSC to maintain its usefulness. This represents a better practice approach to continuous improvement and has highlighted the benefits of further developing the BSC to include a higher degree of strategic focus. Centrelink's proposed approach to the further development of BSC is discussed in chapter 4.

Statement of intent

2.11   In assessing whether Centrelink set out a clear statement of intent, the ANAO examined the Strategic Directions and the Business Plan.

2.12   These plans were assessed to determine whether there was a clear statement of intent expressed at the higher level which was reflected in the goals, objectives and strategies contained in lower levels of planning. Each level of planning is discussed separately below.

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[11]   Letters from Centrelink of 29 April, 11 June and 2 September 2002.

Strategic Directions

2.13 In order that staff within an agency can understand what they are meant to be achieving and to underpin the development of plans which are all directed to achieving the same goals, a clear statement of intent is a necessary starting point. Centrelink's Strategic Directions 2001-06 document indicates that the 'document is designed for Centrelink people to be familiar with our shared purpose and direction'. The plan sets out Centrelink's purpose as 'Centrelink was created to provide exceptional service to the community by linking Australian government services and achieving best practice in service delivery'. The vision statement is about what Centrelink should be, and is 'Centrelink will make a positive difference to Australian individuals, families and communities, particularly during transitional periods in their lives'.

2.14 A vision statement should reflect the needs of all Centrelink stakeholders and would therefore also address clients, government and/or internal stakeholders. As well, it would clearly set out what is to be accomplished— make a positive difference is ambiguous. Centrelink's mission statement does provide some further detail about how the vision will be achieved and makes general reference to other stakeholders.

2.15 It is important that the statement of intent or the starting point for the agency's business should be very clear so that it is received and interpreted by staff at all levels in the way it was intended. Noting Centrelink's governance arrangements, the ANAO considers that there is room to refine these various statements of intent to provide a clearer focus for staff and a clearer basis for the alignment of goals and priorities. While it is the role of the agency itself to establish its vision statement, a possible statement which encompasses not only the vision but also an outcome/output statement is provided in Figure 2.2.

Figure 2.2
Possible vision statement

Centrelink will make a positive difference through high quality assistance and advice to Australian individuals, families and communities	**Outcome**
by providing cost effective, accurate and timely services to eligible customers and communities on behalf of government and client agencies.	**Outcome**

2.16 Using such a statement would provide a clearer starting point and may obviate the need for the use of three different statements. The simplification of the planning framework by removing some levels within it is under consideration by Centrelink.

2.17 The Strategic Plan sets out six goals, that is, 'what Centrelink needs to achieve' to be successful. These goals are set out in Table 2.1.

Table 2.1
Strategic Plan Goals

1. **Client Partnerships:** Deliver required results and provide value for money.
2. **Customer and Community:** Increase involvement and satisfaction with services.
3. **People:** Provide confidence, knowledge, skills and tools.
4. **Cost efficiency:** Manage business efficiently and return a dividend to Government.
5. **Innovation:** Provide innovative personalised solutions.
6. **Best practice:** To be first choice and benchmarked as best practice in service delivery.

Source: Based on information contained in Centrelink Strategic Directions 2001–06.

2.18 These goals are reasonably clear statements of what Centrelink aims to achieve, noting that achievement against the first five goals will largely indicate whether the sixth goal is being met. They form the framework for the BSC which includes the goals and a range of related performance indicators. These goals are further explained in the Strategic Plan and are linked with some broad strategies and high level performance measures. Such broad statements are those which might be expected to be provided at the higher strategic level of an organisation.

2.19 The ANAO identified some issues for consideration by Centrelink (and other agencies as relevant) which would improve the clarity of purpose when the Strategic Plan is next reviewed. These issues are:

- the number and meaning of terms used in the Strategic Plan. Terms include purpose, vision, mission, outcome, output, goals and details. As well, further terms are used in the Business Plan (discussed below) objectives, initiatives, strategies and projects. In some cases, the same term is used to describe different things, for example, the term outcome is used to mean: the overall outcome required by Government; what is to be achieved; and to describe what outputs are. Centrelink advised[12] the ANAO that it agreed there is scope to reduce the number of terms used in Strategic Directions and the Business Plan and to clarify the meaning of the terms that were used;

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[12] Letter from Centrelink of 29 April 2002.

- the outcome statement provided is 'effective delivery of Commonwealth services to eligible customers'. This statement meets the Department of Finance and Administration guidelines[13]. However, the related output 'efficient delivery of Commonwealth services' does not specify all the necessary outputs to achieve the outcome because efficiency is only one dimension of effectiveness. Other dimensions include accurate and timely services and value for money;

- the Strategic Plan contains a mixture of directional and descriptive statements. This mixture of prescription and description could pose a risk to the clear communication of the Strategic Directions throughout the Centrelink Network and the consequent development of sound Business and Operational Plans which should flow from the Strategic Directions; and

- the Strategic Plan also contains many broad undefined statements such as 'explore possibilities for new business' (in which areas, why, how much and by when), 'ensure Centrelink is an employer committed to providing first class working conditions' (what is meant by first class, how far, by when).

2.20 The ANAO considered that these issues made it difficult (Centrelink staff interviewed by the ANAO generally agreed) to gain a clear understanding of what was to be achieved and to set performance targets directly related to these goals. Centrelink is aware of these issues and a review of the Strategic Directions is underway.

Business Plan

2.21 Centrelink has a Business Plan 2001–2004, the stated purpose of which is 'to ensure that the entire organisation's focus is addressing the expectations of Government, client agencies and customers'[14]. The plan also contains implementation actions, milestones and measures related to the business objectives.

2.22 In the context of a BSC framework, a business plan should provide the next level of explanation on how the vision and goals in the Strategic Plan are to be achieved.

2.23 The Business Plan 2001–04, indicates that 'during the next four years Centrelink will pursue eight Business Objectives to ensure that it continues to deliver its…goals…'. Table 2.2 sets out these eight objectives.

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[13] For further details refer to the Department of Finance and Administration, *Guidelines for the preparation of Portfolio Budget Statements 2000–01,* May 2001.

[14] Centrelink Business Plan 2001–2004, p. 1.

Table 2.2

Business Objectives 2001–04

1. **Access**—providing assisted and more appropriate access for its customers by providing an increasing range of services over the Internet and Call Centres, and enhanced support for face-to-face services in either Customer Service Centres or other settings.

2. **Business**—continuing to manage its strategic and day-to-day operations, ensuring that throughout this program of change, reliable service delivery remains its top priority and exploring opportunities for new business.

3. **Correctness and Accuracy**—enhancing its capacity to pay the right person, the right payment at the right time under the right program, by continuing to improve our quality processes and staff training and introducing decision support systems.

4. **Delivery**—maintaining and improving customer-appropriate service delivery, by formalising project and change management processes, creating an enterprise architecture and improving capacity to target entitlements and options in line with the *Australians Working Together* initiative.

5. **Efficiency and Effectiveness**—establishing partnerships, knowledge management and improved links to client agencies will make our operations faster, better and cheaper.

6. **Focus**—providing links to Federal, State and community-based support organisations, supporting , in particular, the Access Australia Portal.

7. **Governance**—increasing organisational effectiveness and impact, including strengthening stakeholder relationship management and clarifying accountabilities and responsibilities.

8. **Helping and Supporting Employees to Achieve the Business Objectives**—developing Centrelink employees and Centrelink agents who are skilled and supported to achieve the Business Objectives, and to make working for Centrelink a positive experience for employees to enable them to achieve personal as well as organisational success.

Source: Centrelink Business Plan 2001–04, p. 2.

2.24 Because the Business Plan was based on these eight objectives it did not specifically relate to the six strategic goals. Centrelink had developed a document to demonstrate the alignment between the strategic goals and business objectives. Some examples of these links are set out in Table 2.3.

Table 2.3

Centrelink's alignment of goals and objectives

Goal	Business Objective
Client Partnerships —to build partnerships with client agencies that deliver the required results and provide value for money.	**Correctness and accuracy** —enhancing its capacity to pay the right person, the right payment at the right time under the right program. **Business** —continuing to improve the strategic and day-to-day operations. **Governance** —increasing organisational effectiveness and impact.
Cost efficiency —to manage our [Centrelink's] business and return a dividend to government.	**Business** —continuing to improve the strategic and day-to-day operations. **Governance** —increasing organisational effectiveness and impact. **Correctness and accuracy** —enhancing its capacity to pay the right person, the right payment at the right time under the right program. **Efficiency and effectiveness** —making operations faster, better, cheaper.

Source: Drawn from a paper provided by Centrelink, *Alignment of Strategic Directions 2002–07* and Business Plan 2002–05.

2.25　As can be seen from the above table, the business objectives were linked to more than one strategic goal. These same objectives were also linked to other goals.

2.26　While Centrelink advised that these links were understood at the higher levels of the organisation, other levels of staff visited by the ANAO during the fieldwork considered the links between the goals and objectives to be less obvious. The table developed by Centrelink may assist staff to make the links between goals and objectives. Centrelink has undertaken some mapping to demonstrate these links and advised that it is 'working to further strengthen the alignment of the objectives to the goals'. Centrelink also advised that:

> ... the current reviews of strategic directions and business planning are testing whether we [Centrelink] can remove one or more levels of goals and objectives and utilise a model around four key strategic goals with some sub-themes[15].

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[15]　Letter from Centrelink 29 April 2002.

2.27   As well as being linked to the organisation's goals it would be expected that a Business Plan would translate higher level strategy statements into more concrete strategies. However, Centrelink's Business Plan continues to provide a range of high level statements. Table 2.4 shows an example of this.

Table 2.4

Statements in the Business Plan 2001-04 relating to Access objective

1.   Objective—Access: Providing assisted and more appropriate access for its customers by providing an increasing range of services over the Internet and Call Centres, and enhanced support for face-to-face services in either Customer Service Centres or other settings.

2.   By the end of 2004, Centrelink will have extended customer access through the Internet and Call Centres.

3.   In this capacity, Centrelink develops and implements new and improved forms of service delivery which reflect the preferences of clients, customers and the community and the capabilities of new and emerging technologies.

4.   By the end of the decade, it is expected that most simple functions will be delivered electronically, through the Internet, interactive digital television, the virtual Call Centre, palm devices or other, new devices not yet available.

5.   What Centrelink will deliver for customers—options, through channel choices appropriate to their circumstances and the assistance they require.

6.   Access-Making it easier for the customer:
  —Implemented enhanced personalised services delivering on the theme of Giving You Options.
  —Provide access via the Internet and automated telephone arrangements on an expanded basis, based on customer demand and preferences.
  —Enhance face-to-face systems through one-to-one customer service at times and in locations that balance customer preferences and the efficient use of staff resources.

Source: Drawn from Centrelink's Business Plan 2001–04. It should be noted that there are another six statements relating to access with a further page of explanations.

2.28   This number of broad level statements, that do not necessarily set out specific actions, increases the risk of confusion about what is actually to be achieved. Reducing the number of statements and more directly relating them through the business objectives to the strategic goals would assist Centrelink staff to understand more clearly what is to be achieved.

2.29   As discussed in 2.26 Centrelink has advised that it is both working to strengthen the alignment between goals and objectives and testing whether it can remove one or more levels of these various statements of what is to be

achieved. The ANAO considers that this, particularly the latter course of action, would assist to clarify the understanding of what was to be achieved throughout all levels of administration.

2.30 The Business Plan contains broad strategies and specific projects associated with these strategies for each business objective. For example, in relation to the access objective a related strategy is 'Centrelink will offer customers a new and wider range of options for accessing services'. A related project required to deliver this is 'Centrelink-design, develop and deploy the progressive roll out of electronic transactions through the internet, email and other technologies...'.

2.31 These projects have start and end dates, typically, currently in progress with completion due in 2004. Centrelink includes milestones and measures in relation to the overall objective rather than these specific projects. The inclusion of these milestones and measures, even though they are stated in general terms, make it possible to gain a better understanding of what is to be achieved by when.

Contributions from each level of administration to the Centrelink outcome

2.32 Operational plans for any agency would be expected to indicate how the particular level of administration or group would contribute to achieving the overall goals. These plans should focus on the contribution being made, that is within the control or sphere of influence of the group/level to which the plan relates.

2.33 A formal operational planning process was introduced by Centrelink in 2000–01. These Business Improvement Plans (BIPs) are considered by Centrelink to provide a structured and consistent approach for each level within Centrelink to develop plans that are linked to the business and strategic goals while being able to consider local issues. Within this framework, the plans should consider only what each part of the organisation contributes. The use of performance information contained in these plans is discussed in chapter 3.

2.34 The ANAO acknowledges in relation to these plans that:

• only a small number of plans were reviewed by the ANAO; and

• this was the first year in which these plans were developed. Table 2.5 sets out the stages in the development of a BIP.

Table 2.5

Stages in the Development of the Business Improvement Plan

Stage	Summary of tasks[a]
Stage 1: Environment	Develop a team and environment statement to allow the BIP to be tailored to local needs while maintaining alignment with strategic goals and business objectives.
Stage 2: Strategy	This includes consideration of risk, actions to achieve results, resourcing issues, identifying responsible officers and performance indicators.
Stage 3: Implementation	At this stage the BIP should be linked to individual performance assessment plans and team and individual learning plans. It emphasises the need for continuous review of the BIP.

Source: Taken from *Guide to Business Improvement Plans*, Centrelink June 2001, pp. 3-7.
  a. The BIP process has changed from the first round to that undertaken for 2002–2003. However, the overall stages as described above did not change substantially, noting that Stage 1 now indicates that 'This includes consideration of the teams as part of Centrelink's overall structure, the impacts on the team's business from the broader environment and possible implications from stakeholders'. The ANAO's assessment of BIPs was undertaken prior to the development of the new guide and changes to the process.

2.35 The BIPs reviewed for National Support Office (NSO), Area Support Offices (ASOs) and Customer Service Centres (CSCs) were planned around the eight business objectives set out in Table 2.2. There were links between Area and CSC plans and it was possible to identify the contributions that each level was to make to achieve the objectives, for example:

- at ASO level, in relation to the Access objective a strategy for training was-improve capacity for technical training with the related action being 'give management attention to the issue of release [of staff] for technical training', and in relation to the Delivery objective 'to ensure seamless service [to customers] establish a One Sydney feedback and liaison mechanism between CSCs and Call Centres';

- at CSC level, in relation to the Access objective, the strategy was to maintain the meeting of all KPIs with related actions:

  —continue to monitor and act on performance data hourly, daily, weekly to achieve required improvement;

—continue with formal monthly meeting on performance; and

—implement actions as agreed with Area Manager at meeting of July 2001; and

- for another CSC also in relation to the Access objective, a strategy was to improve customer service in the reception area with related actions:

—obtain ticket machine to assist with queue management ;

—have a full time community liaison officer; and

—create self-help facility.

2.36   These examples clearly set out the strategies and actions that needed to be undertaken at the particular level of administration and that were within their sphere of control. Discussions with ASO managers highlighted that they were aware of the need to continually review and refine their specific contribution to Centrelink's outcome of effective service delivery which mostly occurs directly at the frontline of each CSC and Call Centre.

2.37   At NSO the ANAO reviewed four Business Improvement Plans and noted the issues outlined in paragraphs 2.38 to 2.40.

2.38   The People Management BIP 2001–02 was centred around projects and activities for the year. For some projects the BIP referred to the Business Plan objective to which it related. In any case, this BIP clearly reflected the contribution that the People Management group at NSO would make. For example, build employee capability (related to the Helping Employees objective) by implementing a learning framework. This learning framework is further explained in the BIP.

2.39   The Service Integration Shop (SIS) BIP 2001–02, was based on the eight business objectives. In this BIP the role of the SIS is to enable the delivery of Centrelink's existing services and to anticipate and position Centrelink for new business opportunities in the future by providing to Community Segments and Areas a suite of integrated service delivery options for customers that meet client requirements. It also indicates that the SIS works in partnership with the Network, Areas and Community Segments. While this role was clearly understood at NSO, the ANAO considers that, from discussions held during the fieldwork, the role of the SIS is not clearly understood across Centrelink's Network. This is important because the role of the SIS is primarily focused on assisting the Network. In relation to the contents of the BIP, for example, the Access objective has a strategy—'implement the re-engineered core business process across all access channels, products and services for customers'. This strategy is not translated into concrete action but is followed by a series of high level statements such as communicate the big picture and demonstrate local

relevance, make information readily available and generic costing model development. Given the BIP is an operational plan, it would make it more useful if it provided an indication of the specific tasks and activities that will be undertaken to achieve the business objectives. This would assist with the establishment of measurable performance indicators which were not provided in this BIP. Assessment against these indicators, which should include feedback from the Network, would make it possible for SIS to establish whether it is achieving its purpose.

2.40 These plans generally indicated the contribution of each level of administration and were based on the eight business objectives. As discussed earlier, this means that the plans did not specify the contribution of each level of administration to the strategic goals and did not link them directly to the BSC.

2.41 The ANAO notes that a three day planning conference was held in March 2002 to discuss BIPs. Centrelink advised that it was a major exercise in both launching the 2002–03 BIPs processes and engaging the expertise of planning coordinators across Centrelink in identifying how enhancements to BIP processes are to be implemented most effectively. Centrelink advised that there were five areas of change that were identified and discussed:

- the standard template for BIPs and the associated Guide were substantially revised from the previous year's version, incorporating changes requested by planning coordinators. Informal feedback since then from numerous teams have consistently noted the improved documentation and streamlining of processes;

- the processes involved in BIP preparation were simplified, with clearer requirements for cascaded BIPs as well as clearer sign-off arrangements. The 2002–03 BIP process commenced far earlier than for in the previous year and the timeframe for lodgement is now recognised by teams as being very achievable, representing a significant improvement;

- the review and sign-off arrangements for the Executive in relation to Senior Executive Service (SES) Guiding Coalition BIPs was streamlined to ensure alignment of planning and SES performance discussions;

- an enhanced Quality Assurance process for a sample of SES BIPs, requiring a thorough assessment of risk analysis and treatment, alignment with Strategic goals and Business objectives, evidence of effective team involvement in preparation, accessibility for team members and other teams, and ongoing implementation and review activities. This is to be undertaken in real time rather than being retrospective as for 2001–02; and

- a further enhancement to quality assurance for BIPs is that a sample of the CSCs and Call Centre BIPs was also developed, specifically to test alignment to both the planning processes one level up and to individual performance assessment[16].

2.42 Because these arrangements were being implemented at the completion of the ANAO's fieldwork, they were not tested as part of the audit. The ANAO also notes that the BIPs were still based on the eight business objectives so many of the issues outlined above remain.

Conclusion

2.43 The role of the BSC as a tool focussed on operational effectiveness was clearly specified. There was room to refine the various statements of intent to provide a clearer focus for staff through all levels of administration and a clearer basis for the alignment of goals and priorities. In this regard, Centrelink advised the ANAO that it considered there was scope to reduce the number of terms used in the Strategic Directions and to clarify the meanings of those terms that are used.

2.44 Centrelink's Strategic Directions were based on its six goals but its Business Plan and BIPs were based on eight objectives. Therefore, the links between the two plans were not clear to all staff at all levels of administration. While Centrelink had developed a table and some mapping to demonstrate these links, it advised that further work was being undertaken to strengthen these links.

2.45 In relation to the contribution made by each level of administration, BIPs indicated contributions to objectives. This means that the plans did not specify the contribution of each level of administration to the strategic goals and did not link them directly to the BSC.

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[16] See Appendix 4 for process changes advised by Centrelink to BIP.

3. The Use of the Balanced Scorecard

This chapter discusses the use of the Balanced Scorecard for performance monitoring purposes.

Introduction

3.1 Centrelink adopted the Balanced Scorecard (BSC) as its main performance management tool in July 1998. Table 3.1 outlines the BSC design current at the time of the ANAO fieldwork.

Table 3.1
Centrelink's Balanced Scorecard

Client Partnerships	
Goal	To build partnerships with client agencies that deliver the required results and provide value for money.
Key result area	Number of measurable key performance indicators met within the standards set out in the Business Partnership Agreements.
Number of indicators	Approximately **140** measures are set out in the Centrelink Document 'Balanced Scorecard Descriptors 2000–01'. A note in this document indicates that some measures listed are not currently displayed in the BSC. This includes approximately an additional 20 measures.
Reported in BSC	Percentage of KPIs meeting the standards.
Customer and Community	
Goal	To increase customer and community involvement and satisfaction with services.
Key result area	Customer satisfaction with services. Customer satisfaction with service delivery channels.
Number of indicators	Approximately **20**.
Reported in BSC	Results of customer satisfaction survey where the customer's rating is either very good or good.
Centrelink People	
Goal	To create an environment where Centrelink people give value to customers, client agencies and the community through their skills and commitment to service.
Key result area	An environment which develops Centrelink peoples' skills and commitment to service.
Number of indicators	**Eight**.
Reported in BSC	Improvement in Centrelink people performance measures' results compared with the result for the previous year.
Cost Efficiency	
Goal	To efficiently manage Centrelink business and return a dividend to government.
Key result area	Return required efficiency dividend to Government.
Number of indicators	**Five**.
Reported in BSC	Operational expenses are managed within revenue from client agencies, government and other sources.
Innovation	
Goal	To provide innovative and personalised solutions consistent with government policy.
Number of indicators	**One**.
Key result area	Return on investment from change projects.
Reported in BSC	Nil.

Source: Centrelink document, *Balanced Scorecard Descriptors 2000–01,* April 2001.

3.2   As can be seen from the table, most of the measures are concentrated in the Client Partnerships perspective. These measures are specified by purchaser agencies in the Business Partnership Agreements (BPA) that are established between them and Centrelink. These Agreements are important because Centrelink receives its funding from client agencies through them rather than being budget funded. Centrelink places a high priority on meeting client agency requirements.

3.3   The ANAO examined whether:

•   the BSC was linked to Centrelink's strategic goals and business objectives;

•   the BSC assisted with the measurement of cause and effect relationships; and

•   the information it contained was used to monitor and report performance.

3.4   In examining the use of the BSC, it should be noted that the ANAO conducted discussions and document review at:

•   National Support Office (NSO) including the Strategic Services, Service Integration Shop (SIS) and Debt Services;

•   two Area Support Offices (ASOs) and with one other Area Manager; and

•   seven Customer Service Centres (CSC).

3.5   While this coverage was designed to capture typical use of the BSC, the findings in this chapter are only indicative of Centrelink's use of the BSC across the network.

Links to goals and objectives

3.6   The BSC was framed around the six goals and Centrelink indicates in its Strategic Plan that:

> A range of performance measures underlie five of the six goals. These measures focus on outcomes relevant to Centrelink's business imperatives which are, in turn, informed by the expectations of government, our client agencies, our customers, Centrelink people and the community. Achievement against the Best Practice goal [the sixth goal] is measured by the level of achievement in the other five goals[17].

3.7   All the indicators in the BSC are linked to Centrelink's strategic goals with the majority of indicators (in terms of absolute numbers, see Table 3.1) relating to services that are to be delivered on behalf of clients. At the outset this represented Centrelink's 'bottom line' and it was critical that these were met. It was apparent from ANAO discussions during the fieldwork that Centrelink

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[17]   Centrelink's Strategic Directions 2001–06, p. 7.

ASOs and CSCs were focused on achieving this bottom line.

3.8 As already stated in chapter 2, the link between Centrelink's six strategic goals and eight business objectives was not clearly made in many cases and not necessarily well understood throughout all levels of administration. Because the BSC only includes indicators relating to the goals, it is not directly linked to, and therefore does not specifically measure, the achievement of Centrelink's business objectives. The ANAO acknowledges that measures related to these objectives are included in the Business Improvement Plans (BIPs) but, because only some of these measures are included in the BSC, there was no structured way to collect/aggregate all of this information to provide a Centrelink-wide picture of performance relating directly to business objectives.

3.9 Centrelink is aware of these issues. The external review undertaken in mid 2001, stated that Centrelink's BSC had been constructed without a strategy map. A strategy map is generally used to translate the organisation's vision and higher level goals through planning levels to set out the required priorities in a way which demonstrates their consequences and impacts on achieving the vision. In this way it makes the links within and between plans more obvious. However, Centrelink has indicated that it has undertaken:

> ... a couple of strategy mapping exercises, some with good results [while] others have been less effective. Centrelink found that developing a strategy map for all of the strategic goals against the classic perspectives [of the BSC] became complex to explain to people and cumbersome to manage.

3.10 Centrelink further notes that it has 'used strategy mapping for the identification of measures for specific elements of the Australians Working Together Initiative'. It considers that this form of strategy mapping has proven to be very effective and it is this form of mapping (that is, small elements rather than the whole picture) that Centrelink is likely to continue to use.

Cause and effect relationships

3.11 Two aspects of cause and effect relationships are discussed in this section of the chapter. These are whether:

- the measures in the BSC allowed Centrelink to understand the reason for achieving or not achieving the expected level of performance; and

- the BSC contained a mixture of lag and lead indicators so that current performance can be assessed and impediments to future performance can be mitigated.

3.12 In relation to the first point, explicit cause and effect relationships in a BSC are usually best established through the use of strategy mapping. This

provides a clear picture of those activities an agency needs to undertake to achieve desired results. As stated above, Centrelink has undertaken some strategy mapping. Centrelink conducts regular performance management meetings with managers at the different levels of administration, at which discussions are held on why particular targets for indicators have not been achieved. The minutes of these meetings include some notes referred to as 'Top Improvement Suggestions', which identify the issues that are likely to be causing the underperformance and propose strategies to address them.

3.13 It was apparent during the ANAO's fieldwork that staff, particularly at CSC management level, were examining cause and effect relationships. For example, the Client Partnerships' goal states that Centrelink builds partnerships with client agencies that deliver the required results and provide value for money. One of the required results for clients is that key performance indicators (KPIs) in the BPAs (between Centrelink and the purchaser agency) are met in line with targets. The ANAO found one CSC visited had been analysing the causes of not meeting these KPIs and had identified that the level of unplanned absences (that is, leave taken by staff without prior notification) as being the reason. In this case, the CSC had begun to use a relief team to undertake the work of staff who were absent so that client KPIs were met. They also sought to establish the causes of the unplanned absences. This represented a sound approach and was occurring in relation to various aspects of performance in the ASOs and CSCs visited by the ANAO.

3.14 In relation to the use of lead and lag indicators[18], the ANAO notes that the focus has been very much on lag indicators, on what has already been achieved. Generally this represents current practice in the Australian Public Service, for example, the percentage of customers satisfied with Centrelink service. Centrelink's independent review of the BSC had also noted there was an imbalance of lag over lead measures in the BSC. Nevertheless, particularly at the operational level, there was some attention to lead indicators. For example, it was widely recognised at the CSC level that time spent in a queue waiting to speak with a Customer Service Officer was a lead indicator of the level of aggressive behaviour by some customers (the level of aggressive behaviour being a lag indicator). CSCs were using queue management systems (and other measures) to address this issue.

3.15 Where possible, Centrelink should, in further developing the BSC, improve the balance between lead and lag indicators so that the focus is on future as well as past performance.

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[18] Lag indicators are those which describe performance for a previous period of time. A lead indicator provides information on whether a desired outcome is likely to be achieved in the future.

Monitoring and reporting

3.16 Monitoring and reporting should be based on sound performance information to ensure its usefulness for decision-making. The ANAO examined whether the BSC was used to monitor and report Centrelink's performance on an ongoing basis, to the Board and in the Annual Report. These matters are discussed under separate headings below.

Performance information

3.17 Centrelink's Business Plan contained a range of general statements about performance to be achieved by 2004 and measures related to these statements were also included. The ANAO noted some areas where performance information in the BSC and BIPs required improvement. The measures requiring improvement are set out for the Access objective in Table 3.2

Table 3.2

Milestones and Measures for the Access Objective

Business Objective	Milestone	Measure
Access	• Extended customer access through the Internet and Call Centres; and • Extend further our support for rural, remote and indigenous communities.	• % increase in Internet use; • % customer self-service transactions on Internet and Call Centre automation; and • % increase in satisfaction with access to Centrelink services from rural and remote and indigenous customer base.

Source: Centrelink Intranet Business Plan 2001–04.

3.18 These measures were not included in the BSC and, in any case, in their current form do not provide a basis for assessment because terms such as 'extended' have not been defined and no target or benchmark has been set for the percentage increase. The ANAO recognises that targets are difficult to set in all cases but are important in encouraging achievement and performance improvement. These and other measures, as necessary, from Centrelink's Business Plan should be revised to ensure that they are able to be assessed either quantitatively or qualitatively. Once revised they should be considered for inclusion in the more strategically focussed BSC.

3.19 BIPs contained a range of performance information some of which was also included in the BSC. The ANAO noted that some performance information required improvement before it was useful for monitoring purposes and some examples of this are set out in Table 3.3.

Table 3.3

Examples of indicators and targets for review by Centrelink

Strategy/Project	Indicator	Target	ANAO comments
Manage Centrelink's strategic relationships with employees.	Centrelink has an effective strategic relationship with employees.	Representative arrangements are reviewed and implemented by end June 2002.	The target does not assist in measuring effectiveness. It is about activities to be undertaken.
Develop Network/ SIS relationship.	Network feedback.	Positive.	The required level of positive feedback would need to be specified.
Better understanding of business process redesign.	Project officers appointed by September 2001, plan prepared by December 2001.	December 2001.	The indicators and target do not measure whether there is a better understanding of business process redesign.
Improving interaction with National Support Office.	Feedback and tracking mechanism in place.	As for indicator.	The level or type of improvement required is not specified.
Provide high quality products and services to support the Network's capacity to achieve objective.	Products and services delivered by June 2002.	Feedback.	The indicator should measure whether Network Capacity has been supported.

Source: Derived from the BIPs for those parts of Centrelink included in the audit fieldwork.

3.20 Many of the indicators and targets in the BIPs were appropriately specified and Centrelink has advised that it is currently working towards further improving the performance information in the BIPs. The ANAO acknowledges that establishing sound performance information is not an easy task particularly when qualitative issues are involved.

Balanced Scorecard performance indicators

3.21 Reviews undertaken by Centrelink have noted a number of issues that should be addressed to improve the performance information in the BSC. Recent performance audits undertaken by the ANAO of Centrelink have also raised issues that relate to performance information in the BSC. Some of these issues have been discussed in other parts of this report but in order to provide a complete picture, all issues are summarised below:

- the measures in the BSC do not directly measure the achievement of business objectives and there is no structured method of capturing the performance at each administrative level or for Centrelink as a whole in relation to BIPs;

- the measures are largely operational and therefore focus on front line delivery with little attention being given to assessing the contributions, particularly, of the NSO to Centrelink's business success;

- client relationships are measured by the proportion of their KPIs which are met. Performance information relating to the effectiveness of the relationship with clients is not included in the BSC (noting the client satisfaction survey has not been undertaken recently and is no longer listed in the BSC Descriptors for 2001–02). Inclusion of these measures would focus on the contribution made by NSO, for example, in negotiating the BPAs;

- there is an imbalance of lag over lead indicators;

- complete information on value for money was not available at the time of the audit fieldwork. This meant that the cost efficiency goal could not be fully measured and it also had an impact on measuring the success against the innovation goals. A thorough understanding of costs and how innovation projects being undertaken contribute to changes and improvements in business operations and achievements is not possible. The development of financial measures is further discussed in paragraph 3.23;

- in relation to Centrelink people, Audit Report No.9 2001–02, *Learning for Skills and Knowledge-Customer Service Officers* found that Centrelink information on the number of learning plans in place was not sufficiently robust to provide appropriate performance information. As well, learning effectiveness is a measure of learning opportunities rather than being based on evaluation of training and development. Given the nature of Centrelink's business, learning effectiveness is an important issue particularly for the 'Getting it Right strategy'[19]; and

- the reliance that can be placed on the information in the BSC is also crucial. If the underlying data for the BSC measures is not accurate then Centrelink and its stakeholders do not have a true picture of actual performance[20].

3.22 Centrelink has been made aware of these issues by its own Internal Audit work, the ongoing review of the BSC and during the ANAO audit and advised that these matters will be addressed in a project to further develop the BSC that is currently underway. Centrelink's proposed approach is described in chapter 4.

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[19] The Getting It Right strategy was announced in November 2000. The purpose of the strategy was to set a framework for improving accuracy and accountability. The first phase was the establishment of mandatory minimum standards in six key areas. The six areas were: correct procedures for establishing and documenting Proof of Identify; correct procedures for examining, storing and retrieving customer records and documents; correct procedures for the establishment and use of on-line documentation; the maintenance and enhancement of the network's technical skills; correct procedures for the recording of decisions; and establishment of Check the Checking processes.

[20] Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*, highlights issues relating to data accuracy.

3.23 Centrelink advised that it will be including financial and efficiency measures in the BSC. These measures, together with underpinning management information reports, are currently under development and will need to be tested and trialed. The measures may potentially include:

- the extent of being under or over budget;

- the ratio of support staff to operational and service staff; and

- an efficiency indicator which reflects benchmarked achievement against actual cost per process point (the process point is a unit of work equal to the value of five minutes processing time).

3.24 The ANAO considers that for these measures to be useful, they need to be based on full costs and the process points need to be clearly defined (that is, refer to the access, assess, refer and ongoing contact points for processing customer claims). As well, ANAO Audit Report No. 60 2001–02, *Costing of Operational Activities and Services Follow-up Audit,* that was tabled in June 2002 concluded that 'Centrelink was implementing a costing system as a basis for planning productivity improvements and accounting for its expenditure of purchaser funds'[21]. In drawing this conclusion, the ANAO noted that there remained issues that needed to be addressed before Centrelink's Strategic Cost Management Project would provide performance information in a manner that was useful to management and therefore be able to be included in the BSC.

Monitoring

3.25 Information from the BSC is provided through the Performance Data Management System (PDMS). The aim of PDMS is to improve the availability, quality and consistency of Centrelink's performance and management information reporting. The system supports the BSC by providing information at each level, including to CSC level. The ANAO found that managers considered the PDMS to be a valuable tool and used it to monitor performance. It provided information in a number of forms, including:

- a monthly report to the Board which contains national level results with details provided on client KPIs not met;

- a performance management package, with colour coding to indicate whether performance is on target (green dot) or below target (yellow dot). This package provides analysis by community segment, area and CSC levels;

- outline reports down to CSC level.

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[21] ANAO Audit Report No. 60, *Costing of Operational Activities and Services Follow-up Audit*, June 2002, p. 21.

3.26   The PDMS allows all Centrelink business units at any level to prepare their own detailed reports on particular aspects of performance.

3.27   Monitoring was being undertaken against the performance information contained in the BSC on an ongoing basis at the CSCs, ASO and NSO levels. Monitoring at these different levels is discussed under separate headings below. Monitoring of performance against measures in the BSC was facilitated by the Centrelink PDMS.

3.28   In relation to the validity and accuracy of Centrelink's data, the ANAO notes that:

- service level agreements are in place that identify owners of the measures that deal with the data to be selected and related business rules for that data. This provides certification of BSC measures; and

- a project is underway to improve data validation. As part of this project, Centrelink should ensure that data validation includes all necessary checks as well as those which relate to the range within which the data falls (that is, upper and lower limits for individual results) that exist currently.

3.29   Centrelink advised that it is systematically evaluating the underlying data for all scorecard measures[22]. In undertaking this evaluation, Centrelink should ensure that the measures reported in the BSC match the descriptions of those measures in all cases.

Customer Service Centre monitoring

3.30   The CSC managers interviewed during the audit fieldwork were using information available from PDMS (and other available sources as necessary) to monitor performance on a regular basis. In some cases, this involved daily or weekly monitoring to manage performance so that any problems could be identified and dealt with to reduce their impact on, for example, achieving client agency KPIs. In undertaking this monitoring, CSC managers did not just focus on one aspect of performance but rather sought to examine cause and effect relationships and identify performance drivers. Some of the performance information used regularly included:

- daily review of client agency KPIs for timeliness for each individual staff member. The ANAO noted that managers demonstrated awareness of the effect meeting timeliness standards could have an accuracy rates with a related impact on rework;

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[22]   Letter from Centrelink of 29 April 2002.

- rates of unplanned absences which effects the level of work activity and subsequently the ability to meet client KPIs. These rates can also be an indication of poor staff morale; and

- information on queue management and appointment wait times which can effect customer satisfaction.

3.31 CSC managers also considered performance information contained in the BIPs in undertaking monitoring activity.

3.32 The ANAO considered that, for those CSCs visited, Centrelink managers were undertaking sound ongoing performance monitoring.

3.33 Centrelink advised the ANAO that performance improvements have occurred in the areas visited where 'the BSC has been used to focus attention and efforts on performance improvements'[23]. The use of performance information to drive improvement is, of course, sound management practice immaterial of the performance tool being used.

Area Support Office monitoring

3.34 The ANAO visited two ASOs and found in both ASOs that significant attention was given to regular monitoring against BSC measures. Where information was provided outside the BSC framework, managers also drew on this to gain a better understanding of actual performance. Some key issues noted during the fieldwork in relation to monitoring by ASO managers of performance are set out below.

- These ASO Managers conducted six-monthly reviews of CSC performance.

- These reviews were positive in that managers and staff were encouraged to report those aspects of work that were going well. In this way better practice could be identified and shared across the Network. For example, if an inner city CSC was performing poorly, managers could discuss how another CSC was achieving a higher level of performance and use the ideas to take appropriate action.

- Where performance was not meeting the required standard, the move was away from a blaming culture to one of saying 'here is an issue; what is causing it, how can we fix it, which office is doing this particular aspect of the work well and how can we learn from the approach that office is using'.

- Managers were identifying the actual causes of poor performance and what support was needed to improve that performance.

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[23] Letter from Centrelink of 11 June 2002.

- These reviews resulted in the development of an Action Plan to address issues raised. Follow-up of the Action Plan addressed issues regarding what had worked/not worked, why, and further action needed.

3.35 In this way the six monthly reviews formed the basis of more regular monitoring of performance. Such regular monitoring formed the basis for six weekly discussion by ASO Managers with the NSO Business Managers, which are discussed below.

National Support Office monitoring

3.36 Based on a review of the minutes of the six weekly performance management meetings between NSO management and ASO managers, the ANAO notes that Centrelink undertakes appropriate monitoring of a range of matters, examples of which are listed below.

- Outstanding action items from the previous meeting are discussed with a report provided on action taken by the previously nominated officer.

- The discussion of the BSC covers a wide range of matters such as:

  —ensuring recording of correct proof of identify is undertaken at all times;

  —the importance of the balance between accuracy and timeliness, with a related action item to identify systemic issues relating to accuracy;

  —KPIs being/not being met with a focus on what strategies are working and where to improve under performance. Some specific strategies were also discussed; and

  —the Getting it Right strategy.

- Updates on business partnership agreements.

- General discussion data issues training and relationships with providers of other government services.

- Workforce and workload management projects.

3.37 These minutes demonstrate wide ranging discussion occurs with the focus on monitoring to improve performance. Notwithstanding this, the audit fieldwork found that there was less of an emphasis on monitoring and performance review relating to the contributions made by NSO teams. The ANAO understands the need to focus on frontline service delivery but performance measures relating to what all levels of administration contribute to Centrelink's achievement of results in equally important. Some appropriate measures that would allow monitoring of NSO's contribution were to be found in the BIPs, but as previously stated, there was no structured approach to collect

this performance data to facilitate monitoring against these measures. However, Centrelink advised the ANAO that monitoring the BIP occurs because the National Manager undertakes performance assessment of members of the Senior Executive Service based on the BIP that relates to their area of business. The results of these performance assessments are not, however, drawn together to provide an overall view of what NSO contributes to the achievement of Centrelink's outcome.

3.38   In chapter 1, reference was made to discussions with Centrelink's two major purchasers, the Department of Family and Community Services (FaCS), and Employment and Workplace Relations. In expressing their views of the usefulness of the BSC from a purchaser management point of view, they noted that in general the BSC most commonly has an internal focus although, in the case of Centrelink, it is used as the basis for performance information in the Annual Report. The BSC also contains information on client KPIs drawn from the BPAs between them and Centrelink. The Department of Employment and Workplace Relations noted that it was important that the BSC drive the development and use of management information to inform decision making within Centrelink with a view to achieving greater consistency in the provision of services to all purchasers. FaCS also indicated that it saw advantages in its newly developing KPIs being included in the BSC to ensure appropriate attention to them in Centrelink.

Quality Committee/Centrelink Board

3.39   The Quality Committee and the Centrelink Board meet monthly. They both have a standing agenda item relating to performance. The minutes of the Quality Committee meeting indicate that discussion takes place on the basis of a paper provided to the Committee, entitled *Balanced Scorecard Performance Analysis.* Particular issues relating to performance are noted in the minutes.

3.40   The minutes of the Board meetings indicate that performance reports are provided through the Quality Committee. While little discussion regarding BSC results is recorded in the minutes, this is not to say that such discussion does not occur. However, from an accountability perspective, it is important that key areas of discussion are noted and actions to be undertaken as a result of discussions be included in the minutes. Subsequent follow-up should also be noted so that actual completion of the action is made apparent.

Annual Report

3.41   Centrelink reports using BSC measures in its Annual Report against five of its six goals Results are provided in such a way that comparisons of

performance over time can be made. Where performance has not met agreed targets this is noted. Key achievements and key challenges for each goal are also listed.

3.42 In relation to the sixth goal, which is the sum of achievement against the other five goals, Centrelink lists key achievements and key challenges but does not provide an overall assessment as to whether this goal was met. This particular discussion is more directed towards outlining activities undertaken rather than providing a clear indication of Centrelink's overall business success against better practice.

Conclusion

3.43 The BSC was framed around Centrelink's six goals and there were therefore clear links between the BSC and Centrelink's goals. Because business and operational planning was based on the eight business objectives, not all links were clearly made to the BSC and well understood throughout Centrelink.

3.44 Although cause and effect relationships had not been explicitly established in all cases through the use of detailed strategy mapping, the ANAO concluded that managers were examining performance information to identify the causes of both good and poor performance as a basis for making improvements.

3.45 Centrelink was undertaking appropriate monitoring and reporting against the BSC. As with any organisation, there were some areas where the performance information which underpins such monitoring required improvement. Minutes of the Quality Committee/Board should contain more detail of key decisions and action taken to increase accountability.

4. Centrelink's Planned Course of Action

This chapter outlines Centrelink's proposed approach to the further development of the BSC and proposed review of strategic, business and operational planning.

Introduction

4.1   Centrelink was an early adopter of the Balanced Scorecard (BSC). The discussion below sets out developments in relation to:

- the establishment of Centrelink;

- BSC effectiveness;

- lesson learnt; and

- BSC review.

4.2   The discussion is based on a paper provided by Centrelink setting out the background to the establishment of the BSC and its planned course of action to enhance the usefulness of the BSC.

Establishment of Centrelink

4.3   Centrelink was created in July 1997 and introduced the BSC in 1998. During this time Centrelink was faced with the amalgamation of two departments and creating a new culture for Centrelink. In addition to this, Centrelink was not to be budget funded but was to receive its funding from client agencies through Business Partnership Agreements (BPAs). The BPAs set Key Performance Indicators (KPIs) that Centrelink had to meet. Centrelink was also asked to return an efficiency dividend to the government.

BSC effectiveness

4.4   In the paper, Centrelink stated that it considers its strategic framework includes Centrelink's Strategic Directions, Business Plan, and Business Improvement Plans. As well, Centrelink believes the BSC has:

- translated Centrelink's strategy, as articulated in Strategic Directions and the Business Plan, into operational terms in the BSC;

- been a force for aligning the whole organisation to achieving KPIs, with big gains in performance when the BSC was made available on-line, at

Area Support Offices (ASOs) and then Customer Service Centre (CSC) levels; and

- helped make strategy everyone's business, as they work to achieve relevant KPIs, both at ASO and CSC levels, as well as through Performance Management Meetings, and through revisions and changes to KPIs as the business or strategy changes.

Lessons learnt

4.5 Five years after the establishment of Centrelink, Centrelink believes that it is timely to enhance the BSC so that it remains effectively linked to (and communicates) current corporate strategies that are being developed through reviews of its Strategic Directions and Business Plan.

4.6 As Centrelink has developed, including its strategies and BSC, Centrelink has gained considerable experience which it is feeding into the review process.

4.7 Centrelink believes that a key step is to ensure that client agency requirements and expectations are clear. A new BPA has recently been completed with the Department of Employment and Workplace Relations, KPIs for Australians Working Together (AWT) are under development, and a review of the FaCS BPA is underway. Key issues from a Centrelink perspective include:

- the importance of using the right metrics, so that measures drive appropriate behaviour–a measure proposing set proportions of compliance action to a population group, for example, may not promote quality decision-making;

- making clear the relative priorities—there are often tradeoffs between KPIs, such as accuracy and timeliness, and determining which has a higher priority from a client perspective needs to be made clear, for example through the targets set; and

- the need to ensure that client agencies fully articulate the basis on which they are judging Centrelink's performance including relative priorities.

4.8 From an internal management perspective Centrelink considers that the key lessons have included:

- the importance of adding new measures as strategies change—because if its not measured, its not focused on—current priorities include the Getting it Right strategy and AWT;

- the desirability of capturing the performance of key internal business processes directly (rather than indirectly through their contribution to client KPI performance), so as to give a 'whole of business' view of the

organisation. Work is currently underway to map internal capability using DMR Consulting's Benefits Realisation methodology[24]. In addition, work is in train to bring into the BSC key performance measures used in other contexts to better capture the contribution of the National Support Office; and

- the need to understand the key drivers to achieving KPIs. Centrelink has used quantitative research to identify key drivers and relative priorities for customer satisfaction, for example it is currently using process mapping techniques to further the understanding of key drivers through a Business Process Redesign project. It is also drawing on value mapping techniques.

BSC Review

4.9 In order to draw together the lessons learned with the theoretical insights provided by Kaplan and Norton's latest work[25], as well as other relevant literature, Centrelink is currently conducting a review on its BSC, in conjunction with major reviews of its Strategic Directions and Business Plan, with the aim of achieving a number of outcomes. Some of the aims of the review include to:

- more clearly articulate the links between the elements of the strategic framework;

- ensure that the vision, mission, goals and objectives remain appropriate, and if possible, to better link them to the Portfolio Budget Statement framework;

- ensure all elements of its current strategy, such as AWT and Getting it Right, are adequately captured;

- enable the Corporate Scorecard to measure the contributions of business units across the organisation;

- help communicate and manage the shifts in strategy articulated in the Minister's and Chief Executive Officer's recent 'Creating Centrelink and the New Journey' speech to staff; and

- include lead indicators to provide a better sense of how we are tracking against the Centrelink Strategies.

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[24] John Thorp, *The Information Paradox: Realizing the Business Benefits of Information Technology,* DMR Consulting Group Center for Strategic Leadership London; McGraw-Hill, 1998.

[25] ibid, p.2.

The review will implement changes iteratively, and current work is focusing on what can be done to quickly improve the presentation and usefulness of the BSC, including:

• providing a more comprehensive 'at a glance' picture of the performance of Centrelink as a whole;

• incorporating measures to capture new strategy elements; and

• meeting user needs for faster delivery of data.

Conclusion

4.10 The proposed course of action that Centrelink has indicated it plans to take draws on the findings of its own Internal Audit, the ongoing review of the BSC, the latest ideas emerging in the literature and the findings of this audit. If Centrelink undertakes the review as specified in this chapter and deals with issues related to data validation (chapter 3), the ANAO considers that it will have addressed the issues raised by this audit.

Canberra   ACT
30 September 2002

P. J. Barrett
Auditor-General

Appendices

Appendix 1

A Strategic Balanced Scorecard Approach

Introduction

The evolution of the Balanced Scorecard (BSC) was discussed in chapter 1. As noted in that chapter, since it was first promulgated as a measurement framework, it has been further developed to become an organising framework for strategic management purposes Figure 1 outlines this framework.

Figure 1
A Strategic Management System[26]

Designed around a Longer-Term
Strategic View
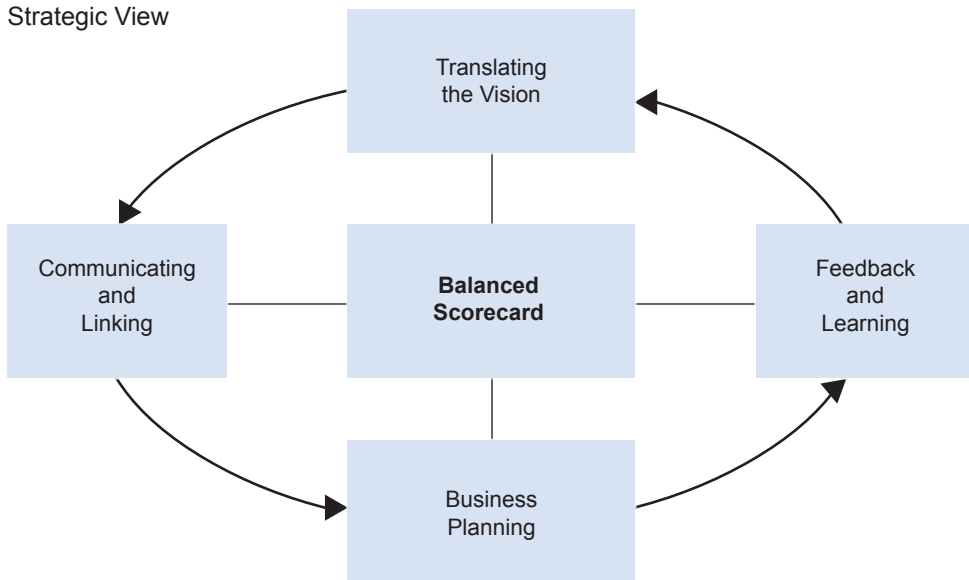
The purpose of this later model BSC is to help managers articulate and communicate the vision and strategy for the organisation, and monitor whether objectives have been set and the extent to which planned actions to achieve them are working. The major benefits of this strategy-focused scorecard include:[27]

- the articulation of a holistic set of key strategic objectives aligned to the corporate vision;

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[26] CPA Australia, *Applying the Balanced Scorecard*, Melbourne 2001, p. 23.

[27] Drawn from the website of 2GC Active Management, <www.2GC.co.uk>. Balanced Scorecards used for strategic control.

- a shared understanding of activities planned to deliver the strategic objectives;

- a common language to articulate and communicate strategic objectives, plans and targets within an organisation;

- an explanation of how objectives link to the financial requirements of the organisation—this also identifies areas where trade-offs between objectives are required (for example to reduce costs and increase marketing investment); and

- encouragement of dialogue within the organisation about strategic goals and expectations.

The framework provided above is a descriptive, rather than a prescriptive framework, and there is no one right way to develop and implement a BSC. The BSC, like any other performance management system that agencies choose to adopt, needs to be designed in the way that best suits the needs of the particular agency. However, if certain elements are not included and better practice principles followed then it may be that a strategic BSC approach is not actually being used in practice.

The BSC is being widely used in both the private and public sector. In relation to its use in the public sector, Kaplan has indicated[28] that there are six barriers to the effective use of the BSC in that sector. In discussing these barriers, Kaplan notes that the private sector can also face similar difficulties in using the BSC. The barriers identified by Kaplan, which may influence the use of the BSC as a performance management tool in the public sector, are described briefly below.

In common with the private sector, public sector organisations have multiple oversight points-elected officials, the legislature, parliamentary committees, the media and general public interest groups. These groups have disparate interests and accountability requirements. As a result, public sector executives get pulled in many more directions than their private sector counterparts. Constituents are also likely to have requirements of the public sector that can be conflicting.

Strategy can be difficult for a public sector organisation to articulate because agencies are often faced with short term imperatives and typically opt for an operational excellence strategy. However, using the BSC as a strategic, rather than a measurement, tool has great value in assisting public sector managers make choices and carefully define their vision so that the focus is on strategic rather than operational matters.

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[28] Based on Kaplan, R, *Overcoming the Barriers to Balanced Scorecard Use in the Public Sector*, Balanced Scorecard Report, November/December 2000, Vol 2 No.. 6 pp. 10–11.

Public sector managers are faced with the need for transparency and public accountability. As Kaplan says[29] 'Private sector companies can set clear performance targets and handle matters internally when performance falls short of plan'. Performance targets for public sector organisations are a matter of public record. Failure to meet the target level of performance can become the focus of media attention. This can make public sector organisations reluctant to commit to performance targets, particularly ones involving some degree of stretch.

A fourth obstacle cited by Kaplan is the inability of public sector organisations to offer incentive compensation thereby not having access to one of the most important levers used by the private sector to align employees to the scorecard's strategic objectives and measures. This is not necessarily the case for the Australian Public Service (APS).

Public sector outcomes can take many years to achieve because they involve such things as preserving the environment or improving health which will only be achieved in the longer term. Also, many other factors, beyond individual agency performance, must be aligned for measurable improvements in such outcomes to occur and be noticeable. In these circumstances it is difficult for individual agencies to establish causal links between their actions and actual achievement of the outcome. Measures relating to the achievement of intermediate outcomes can assist to track whether activities are achieving positive results and are acting as drivers for the long run outcomes.

Associated with the length of time it is likely to take to achieve outcomes, is the fact that many of them cannot be achieved by a single agency. Multiple agencies, often at various levels of government and across different jurisdictions, must coordinate their efforts for improved outcomes to occur. In this situation, the BSC provides appropriate mechanism to set high-level, inter-agency objectives that allow multiple agencies to work together to accomplish the mission. Kaplan acknowledges that there are very few examples of this actually happening. He considers that scorecards developed for high-level multi-organisational initiatives could provide the context and process for representatives from multiple public sector agencies to come together for high-level discussions and cooperation.

This brief discussion indicates that the effective design and use of the BSC is a particular challenge for the public sector.

The approach set out in the chapter, among other things, links a strategic BSC with the outcomes/outputs framework at a high level and demonstrates how an Executive Level Scorecard can be used as the starting point for each organisational level to identify and agree its contribution to the implementation of an organisation's vision.

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[29] ibid 28, p. 11.

The ANAO is aware that setting the agency's vision and outcome(s), the latter within the Department of Finance and Administration (Finance) guidelines[30], is a matter for the agency itself to decide. Equally, in setting out the approach, the ANAO is not providing a prescription to be followed. The application of a particular approach using the BSC is a matter for each agency to decide in the light of its particular circumstances.

This approach is presented so that other APS agencies can consider its usefulness to them.

Approach to BSC development

Figure 2 outlines a strategic performance management framework. It includes a strategic planning approach, designed to underpin the development of the BSC, and demonstrates the links that could be made with the development of outcomes, outputs and related performance information required for the Portfolio Budget Statements (PBS). The focus of the PBS is mainly related to external accountability purposes. The strategic BSC approach, as described here, has internal management as its main focus although some agencies will use it for external reporting purposes, such as in the Annual Report. Accordingly, there will be differences in what the PBS and BSC contain and in how the separate elements are defined. However, the framework described assists in ensuring that there is an integrated approach with both the PBS and BSC using the same starting point. That is, the vision and/or outcome statement. It also seeks to ensure that monitoring and reporting for both internal management and external accountability purposes are undertaken on the basis of this same integrated framework.

This should mean that there is a clear understanding within the organisation and among external stakeholders regarding the direction being taken. It should also mean that plans, systems and performance data are aligned thus avoiding costly duplication of effort in achieving and measuring results. Put another way, the organisation will be saying, doing and measuring those things that will contribute to achieving the vision whatever the planning and performance regime.

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[30] Department of Finance and Administration, *Guidelines for the Preparation of Portfolio Budget Statements*, May 2001 and *Performance Information in Portfolio Budget Statements*, ANAO, May 2002.

Figure 2

Outline of strategic performance management framework
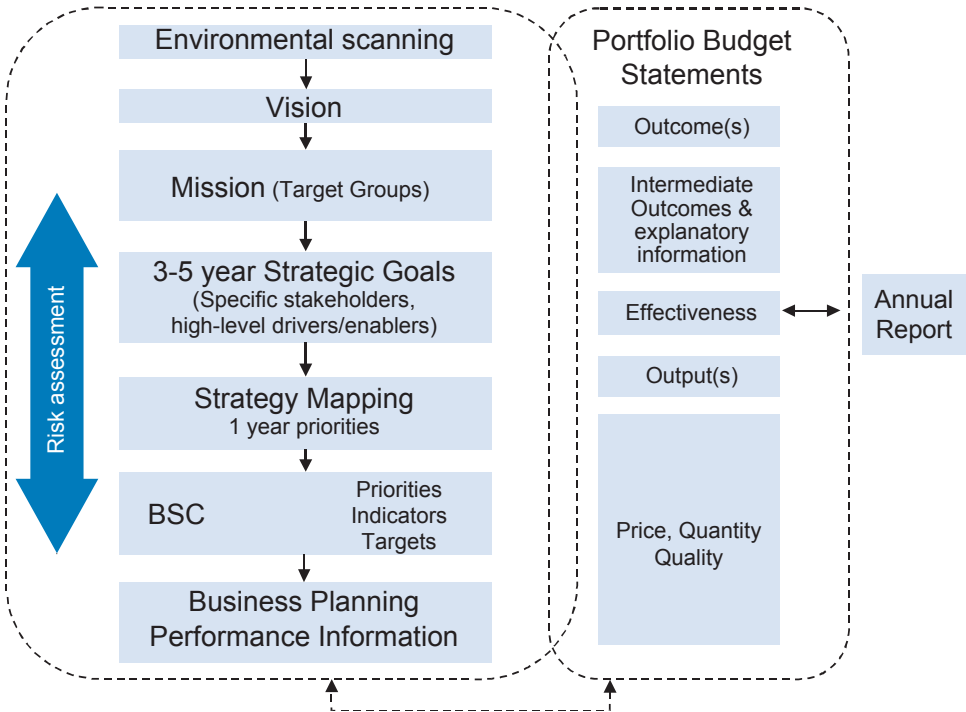
Underlying the suggested planning approach is the idea that at each level of the planning process the organisation looks at a shorter and more specific time-frame and adds more detail by setting out increasingly concrete statements about what needs to be achieved and how.

Each of the steps in the diagram is discussed under separate headings below. The relationship with PBS requirements is also discussed where relevant.

Environmental scanning

Undertaking environmental scanning is important because agencies have to take account of external and internal factors that influence the definition of the goals that the agency has to meet and the way these will be achieved. External environmental factors include, for example, government policy and changes to it, risks, demographics and economic conditions. Internal environmental scanning should cover issues such as staff capability and technology, resources and structures. As part of this analysis, stakeholders, (parties with an interest in agency services) and their particular requirements should be identified. Stakeholders include the government, client agencies, customers and a Board, in the case where one exists, but can also be internal groups such as the Executive.

Risk

The literature relating to the BSC does not specifically refer to risk assessment[31].

The APS has been focusing on risk assessment since the mid 1990s. The most recent advice regarding appropriate risk assessment is contained in the Australian Standard on Risk Management (AS/NZS 4360:1999)[32]. Figure 2 indicates that risk should be considered throughout the development of the performance management framework.

In a **strategic** BSC, risks and their treatments are an inherent part of the process of setting the mission, goals and priorities. The main focus of the strategic BSC approach is to focus management attention on the most important priorities. Consideration of risk is an inherent part of deciding the most important priorities. Particular risks and their treatments should be identified in terms of the level of resources, management effort and controls for accountability required to achieve results at each step in line with the risk standard.

Vision

The vision setting out the high-level purpose of an organisation should draw on the detailed understanding gained by undertaking the environmental scan. For the APS, it may also be useful to encompass the organisation's outcome statement(s). In some cases this may mean that the vision will be reflected in the broader Portfolio outcome statement. Consideration would also need to be given on how to reflect a consistent direction in cases where there are a number of outcomes for which an organisation is responsible. The reason for attempting to bring together the vision and outcome is to establish a consistent starting point from which all planning can flow. This step includes the broad specification of:

- high-level statements of strategic intent and strategic goals;

- shorter term priority activities, tasks and projects required for implementing the high-level strategies; and

- the outcome(s) and, later outputs, which are used for Parliamentary and public accountability purposes.

The vision or outcome statement set out in Figure 3 provides a possible vision/outcome statement for an agency that provides services.

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[31] Centrelink had undertaken an appropriate risk assessment which was not considered as part of theis audit.

[32] Management Advisory Board and its Management Improvement Advisory Committee *Managing Risk, Guidelines for Managing Risk in the Australian Public Service,* Exposure Draft July 1995 and Standards Australia and Standards New Zealand, AS/NZS 4360:1999, *Risk Management,* April 1999.

Figure 3
Example vision statement

The Agency will provide excellent services, including accurate payments and information, to eligible customers and communities in line with the requirements of government and client agencies.

The example vision and outcome have been expressed by the ANAO as one statement. In this case, the statement meets Finance requirements for the specification of an outcome.

Mission

In any agency, the vision should then be translated into a mission that more precisely states what is to be achieved for which stakeholders.

In adding this level of detail, APS agencies could draw on the guidance provided in relation to developing the PBS regarding the use of intermediate outcomes and explanatory text. The example mission statement provides added information that specifies the intended impact of an organisation's outcome in line with Finance guidelines and provides a sound basis for developing clear goals for how much is expected to be achieved by when. The example continues to emphasise the use of an approach that supports consistency between the strategic planning which underpins the BSC and the related development of the PBS.

Figure 4
Example mission statement

The agency will deliver:
- *for government—support services, value for money and evidence for policy making;*
- *for client agencies—services in accordance with client requirements and evidence for policy advising; and*
- *to eligible customers and communities—simple, personalised, accessible, accurate, timely services.*

Goals

Statements of an agency's vision and mission are often expressed with a degree of abstraction so that, in spite of specific changes that may occur to particular programs or services, they remain valid in the long-term. Because of this level of abstraction the vision/mission should be translated into unambiguous quantifiable goals reflecting:

- stakeholder requirements;

- high-level drivers (that is, the processes designed to achieve the goals); and

- enablers (that is, the tools, systems and resources that support the drivers).

This also involves specifying timeframes for the achievement of goals or part thereof, that is, how much by when. The purpose of setting out these goals is to define where the organisation wants to be in terms of performance within a specified timeframe. The timeframe should be decided by the agency given its particular circumstances. However, a commonly used timeframe is three to five years.

Example 1: In 2005, the agency has delivered its outputs to stakeholders and made the expected contributions to outcomes within budget.

Example 2: Compared with 2002 more effective use of resources can be demonstrated by having changed service delivery channel mix to accurately reflect customer preferences as follows:
—20% off all services delivered via internet;
—30% via telephone contact; and
—50% via face-to-face service.

Setting and communicating clear goals supports the development of a shared understanding within an organisation of exactly what is to be achieved over the next three to five years in order for an organisation to be on track to realise its vision. Setting the goals should not just be about doing the same thing or something slightly different from previous years, to the same standard with the same level of resources. It is about improving what is done, the level of performance achieved, reducing costs and/or making more effective use of resources. It is therefore about change and change management. It may mean that the organisational structures and capabilities will need to change. The strategic BSC is considered a valuable tool in identifying areas in need of change and supporting successful implementation of such change.

Clarity in goal setting provides a sound basis for deciding on priorities and the starting point for describing outputs for the PBS. It also provides the basis for establishing performance indicators and related targets for monitoring progress.

Strategy Mapping

The purpose of strategy mapping is to focus management attention on the priorities in order to make sure the defined goals are achieved within the three

to five year timeframe. As such strategy mapping assists in deciding which activities need to be undertaken first and how to prioritise the use of resources.

The executive management team should be collectively responsible for defining the high-level priorities that are within their direct sphere of influence bearing in mind that more detailed contributions will be made at other planning levels. The executive management team will also be jointly responsible for the achievement of these priorities and the team must, therefore, focus on what it can influence directly. Criteria for selecting and agreeing priorities is likely to include the relative urgency of a goal and the magnitude and complexity of change that will be needed to achieve the goals. Using strategy mapping against the four perspectives of a BSC to identify strategic priorities (Figure 6) supports the development of a holistic plan based on the team's assumptions about cause and effect relationships, that is, what the team believes needs to be done to achieve an agency's mission and what intermediate results should be occurring from undertaking these activities.

In order for the team to maintain focus the number of priorities should be limited to four to six priorities per perspective, which is consistent with the general recommendations made in existing BSC literature.

The APS operates on a one-year budget cycle and, therefore, establishing yearly priorities may be appropriate. As such, strategy mapping could provide the logical starting point for writing the PBS. This approach would help avoid the PBS simply being based on what happened last year with some minor variations as opposed to being based on sound strategic thinking.

Having said this, APS agencies must work within their budget allocations. However, the allocations should be driven by strategy not vice versa. If budget allocations differ significantly from what was sought, agencies need to reconsider their goals and priorities, in the light of the budget they have available. As well, over the planning cycle other factors, for example, a significant change in economic circumstances or other environmental issues, may also necessitate a review and resetting of priorities. This means that the planning process is iterative rather than linear.

Figure 6 offers an example of priorities chosen to achieve the example goal set out in Figure 5 and then mapped against the four BSC perspectives.
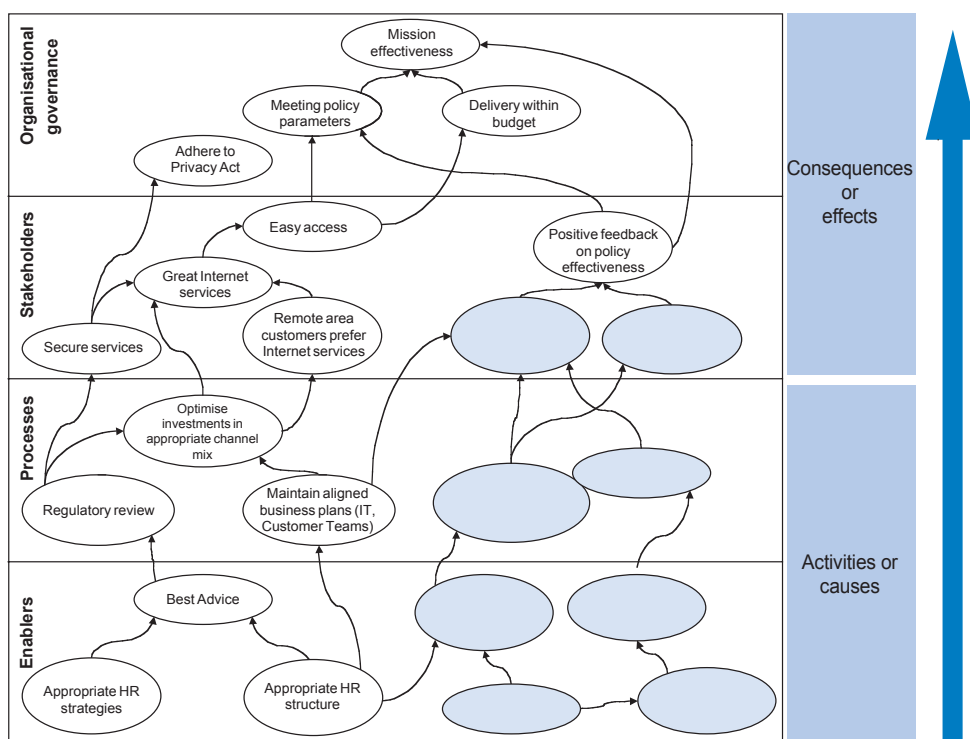
Figure 6
Example of strategy mapping

Figure 6 shows an approach to using the classic four perspectives of the BSC framework (that is, financial, customers, internal process and learning and growth) including some modification to make it more relevant to the APS. The four perspectives, as modified, are organisational governance, stakeholders, processes and enablers. Each of these is explained below:

- Organisational governance[33]—this includes priorities capturing the degree to which the mission has been fulfilled effectively and whether the agency can demonstrate that government requirements as well as the broader corporate responsibilities that apply to the agency, for example, legislative requirements, have been met;

- Stakeholders—these priorities focus on how well stakeholder expectations have been met (for example, purchaser agencies and/or other groups or individuals that play a key role in the agency's ability to deliver the mission). Stakeholders include customers, that is, those target groups specified in the outcome;

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[33] Organisational governance is about managing the business as opposed to the broader concept of corporate governance which is about values, ethics, management and accountability. Corporate governance should be a priority within the organisational governance perspective.

- Processes—these describe the activities and processes intended to achieve the desired stakeholder and organisational governance results; and

- Enablers—these priorities focus on what needs to be done to make sure the right people, systems, resources and culture are in place in order to support the organisation's ability to successfully undertake the required processes.

The chosen enabler and process priorities therefore represent the activities within the scope of the executive management team's direct control, the ones that the team consider most important for them to undertake in order to achieve the mission. The results or expected consequences of undertaking the activities are then reflected in the stakeholder and organisational governance priorities and constitute the most important results to achieve on the way to accomplishing an agency's mission.

This map illustrates how the concept of strategy mapping can help management teams to a more systematic and holistic planning approach based on cause and effect thinking. Mapping the priorities across the four perspectives identifies the need for consensus building within teams concerning what they need to do (the enabler and process perspectives) and what happens as a result (the stakeholder and organisational governance perspectives). It also focuses the decision-making on which enablers need to be in place for the drivers to work effectively. It should also focus attention on whether stakeholders are satisfied with the outputs and outcomes within the boundaries of the organisational governance perspective. That is, for example, stakeholders' requirements must be fulfilled but within budget and meeting legislative requirements. Such an approach will help avoid gaps in the articulation and management of strategy, where, for example, a particular result is expected to be achieved without making sure the activities required for its achievement are in fact being undertaken.

The strategy map can therefore assist in developing a better understanding of the business, particularly when the causal relationships underlying the planning assumptions can be tested through ongoing measurement by using the BSC as described below.

BSC

The priorities chosen though the strategy mapping example need to be documented and further elaborated in order to capture their full meaning. For example, the priority in Figure 6 'Secure services' makes little sense unless further explanation is offered. This will not only assist the people who developed the strategy map remember the thinking behind the goal and priority setting after the initial design of the BSC, but also ensure that communication of the priorities to other stakeholders provides a clear, consistent, and unambiguous message about the direction the agency is taking.

In order to monitor achievement of the various priorities, indicators with associated targets will have to be identified. These should preferably consist of an appropriate mix of leading and lagging indicators[34]. Targets derived from the three to five year goals should be set for each indicator and performance against these monitored and reported using a BSC reporting format as illustrated in Figure 7.

Figure 7
Example extract of a Balanced Scorecard

Priorities	Indicators	Targets				Results				Comments
		Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	
Remote area customers prefer internet service delivery	1. % of services available. 2. % of clients who receive services via internet.	70% 40%	80% 50%	85% 65%	90% 70%	50% 30%				Not enough skilled IT staff—new employees functional from Qtr2. Not enough relevant services available.
Feedback on policy effectiveness	1. % feedback requirement met. 2. % of clients satisfied with feedback.	100% 100%	100% 100%	100% 100%	100% 100%	70% 50%				New analytical software ready by Qtr3. Need to better management expectations/ requirements.

Note: Qtr refers to each quarter of the year.

Assumptions about strategic cause and effect relationships can then be proven or disproven by measuring whether the organisation is undertaking the activities it identified as priorities and whether these have in fact had the expected consequences. Using this type of knowledge at the centre of the strategic management process can help foster a more constructive dialogue about what needs to change—organisational behaviour or the goals themselves—particularly when targets are not being met.

The multiple layers of causality offered by the four-perspective strategy map and associated BSC also supports the outcome and output performance reporting requirements for the PBS framework.

Indicators designed to monitor stakeholder priorities are likely to provide valuable information about the extent to which stakeholder needs are being satisfied and what stakeholders think about the quality of the outcomes or outputs produced as a consequence of the priority activities undertaken by an agency (captured in the process perspective). Similarly, stakeholder satisfaction (that is, client agencies and customers) and the extent to which this has been achieved within the agreed budgets and regulatory requirements are important indicators of outcome effectiveness. This is illustrated in Figure 8.

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[34] For an explanation of setting lead and lag indicators see ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p.28.

Figure 8

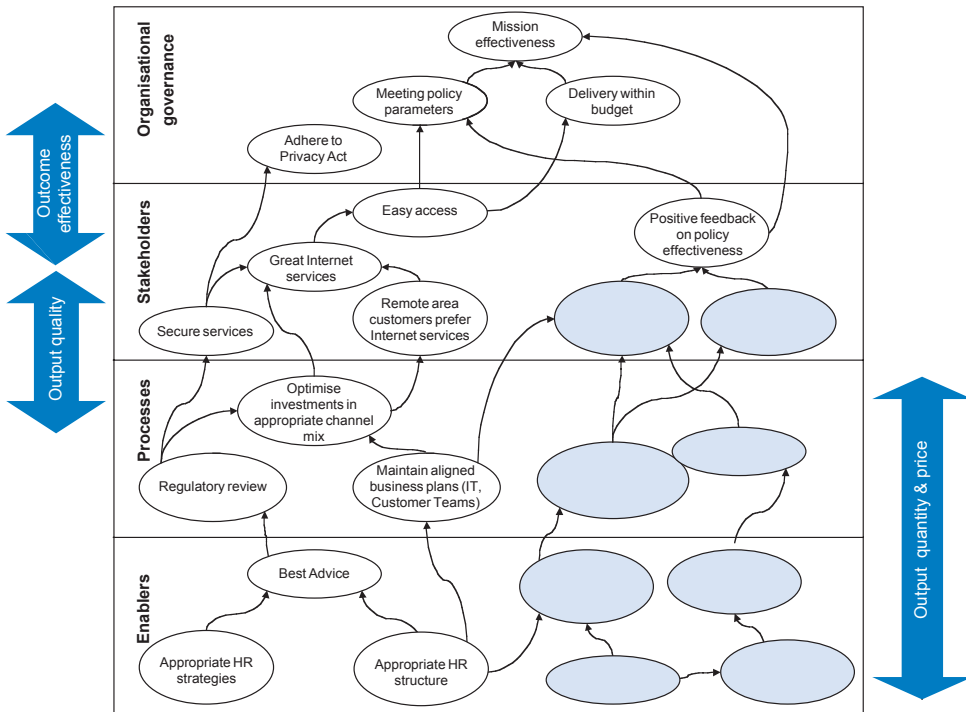**Link between BSC/ strategy maps and PBS reporting**

Figure 8 also illustrates the relationship between priority activities in the process and enabler perspectives and the PBS requirements for output price/quantity reporting. The quantity relationship is based on the priority indicator targets and the price relationship is based on the opportunity for using priority activities and associated sub-processes as a high-level starting point for costing of individual outputs.

Contributions

The preceding discussion has focussed on developing a BSC at the strategic or top level of the organisation. Like any other performance management framework, the framework developed at the highest level must form the basis for the development of plans and performance information throughout each level of the organisation. This allows for links between the different levels and for alignment to be developed throughout the performance management framework. In this way, the organisation is striving to achieve the same vision.

The strategic direction set in the development of the high level scorecard needs to be effectively communicated in order for the whole organisation to clarify, plan and agree specific contributions towards implementing the organisation's

strategy and achieving the vision. This can be done by undertaking a similar exercise as described above, but using the executive goals and BSC, as well as additional goals and BSCs from other relevant parts of the organisation, as the starting point for setting their own goals and priorities defining the contributions to the corporate strategy.

As well, the executive management team may wish to indicate that there are some mandatory elements that should be included in lower level plans and scorecards. For example, matters such as organisational health and safety, which are legislatively based, or elements where there are APS-wide guidelines and/ or requirements may need to be mandated for inclusion in lower level plans and scorecards.

This approach secures alignment between the different planning levels. It also ensures that the individual management teams undertake translation of higher-level priorities into subsets of locally relevant contributions, for which goals and priorities can be agreed. The exercise will be based on the knowledge of these management teams about the specific operational elements of their part of the organisation and, although final goals and targets will obviously need to be negotiated with higher management, levels of ownership of the strategy will be effectively devolved.

Figure 9 provides a simplified example of translating higher-level priorities into locally relevant contributions.

Figure 9
Identification of local contributions
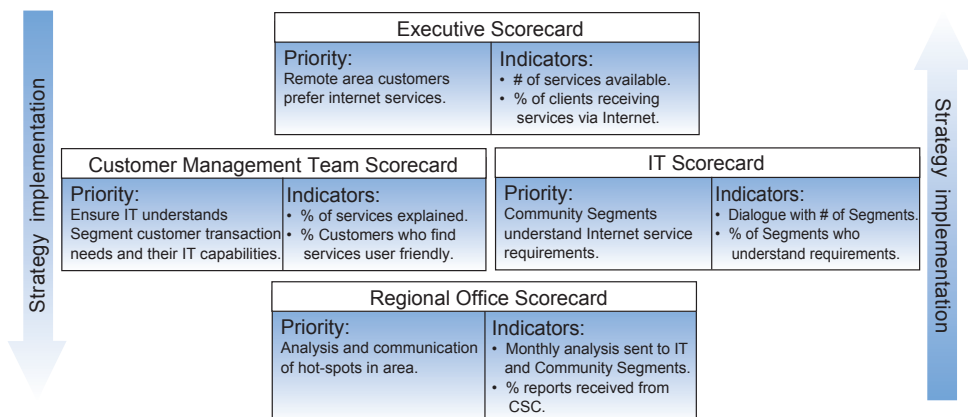
It is important to note that the indicators suggested in this example use different measurement units and are not intended to 'add up' in a traditional accounting sense. The indicators are designed to monitor local contributions and therefore only relate to the local priorities. This does not exclude BSCs from also using more traditional indicators that can be neatly aggregated to a few high-level indicators. It should, however, highlight how the quality of an indicator is based on its ability to measure local contributions rather than meet higher-level accounting type control purposes.

Conclusion

This paper has outlined a possible approach to developing a strategic level scorecard with an indication of how to identify the contributions that will be made by other organisational groups and levels. It demonstrates the need to develop plans and related scorecards in sequence so that each one builds on the goals and priorities from the level above or other relevant groups. It allows for the clear identification and communication of goals and priorities throughout the organisation. In this way, it encourages strategic alignment. This approach draws in risk management principles and the requirements for developing the PBS.

Appendix 2

An Overview by Centrelink: How the Balanced Scorecard is used[35]

The Balanced Scorecard (BSC) concept was introduced to Centrelink in December 1997 with the first generation scorecard being implemented from July 1998.

The Centrelink BSC is an information management tool which is unique in that it provides, at a glance, an organisation-wide snapshot of how Centrelink is performing across both financial and non-financial measures. It links the organisations' day to day operations to its strategic goals, harnessing corporate activity within the organisation.

From the beginning, it was decided to frame the BSC around five of the six strategic goals of the organisation. While this is a departure from the orthodox approach offered by Drs Kaplan and Norton, Centrelink felt it was important not to impose another level of terminology on our people during a period of rapid change. The aim was to use the scorecard to communicate the important things to focus on while giving feedback as to how we were going in achieving our goals. There are six strategic goals for Centrelink and the five reported in the Scorecard are as follows:

- **Client Partnerships**—to meet contractual agreements with client agencies and to deliver value for money;

- **Customer and Community**—to meet their service expectations and help them meet their obligations;

- **People**—for staff to have the skills, values and behaviours to do their job effectively;

- **Cost Efficiency**—to operate within its budget and meet required efficiency dividends to Government; and

- **Innovation**—to invest in projects that deliver improved outcomes for stakeholders.

The Centrelink BSC:

- assists in corporate governance;

- focuses performance against our goals by linking them to explicit objectives and measures;

- identifies key performance attributes that Centrelink must succeed in to reach its goals;

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[35] Source. Document provided by Centrelink.

- allows monitoring of ongoing performance through a range of key measures, against which achievements can be recognised and weaknesses identified, to give opportunities to improve performance; and

- communicates performance across the whole organisation to support ongoing planning.

Use of the strategic goal framework meets the challenge of focusing the whole organisation on what needs to be achieved, while at the same time giving attention to a range of stakeholders (the government, client departments, customers and the community and staff).

As with any government organisation there is a challenge in getting the parameters right, as the bottom line of making a profit is not relevant. The BSC was viewed as the obvious way to bring them all together. As Centrelink was developed as the Commonwealth Service Delivery Agency it was imperative that it was focused on being a performance orientated organisation because:

- funding is provided through Client Agencies;

- it would allow Centrelink to demonstrate its performance focus to stakeholders (government) and customers (general public); and

- it wanted a mechanism to be able to measure performance in order to reward staff if they achieved or exceeded Centrelink expectations.

Centrelink primarily uses the BSC for:

- Corporate Governance and Accountability:

  —reporting performance to our Board of Management, Quality Committee and Executive; and

  —reporting to Parliament in the Annual Report.

- Strategic Alignment:

  —congruity of focus for the whole organisation;

  —sense of purpose-everyone connected to the main game-making strategy everyone's responsibility; and

  —connection of each service unit to the goals of the organisation.

- Performance Feedback

  —providing monthly performance information to the whole organisation;

  —identifying best practice;

  —identifying poor performing areas and directing assistance to them; and

  —determining pay rises (external auditors assess against selected scorecard data).

Centrelink uses the BSC as a conversational tool-in terms of posing questions about Area performance, measures and targets. The Deputy CEO Business chairs meetings six weekly, where all Area Managers and key National Managers meet to discuss performance results, to share best practice and look at activities that need improved performance. These meetings set the framework to raise local issues about meeting particular standards and form the basis of our negotiations with client departments.

It is important to note here that the focus is on performance improvement and not the allocation of blame. Area Managers spend a great deal of time in their Area's promoting the sharing of best practice ideas for improved performance. This can be done, not only within their Area, but also nationally which would not be possible without the technology that we developed and implemented within our on-line BSC. There is a comparison tool available allowing individual offices to compare their performance against any office within Australia.

Centrelink is currently in its third generation scorecard and feels that the cultural change it has achieved can be largely attributed to the use of the BSC. The cultural change required when trying to implement new and different approaches to performance management is one of the key ingredients to success. The on-line BSC provides Centrelink with the mechanism to get the performance message to all staff. Our Deputy CEO Business is quoted saying 'One of the first things offices want to show me is their achievement against KPIs'.

Some of the lessons that Centrelink has learnt along the Scorecard journey of successfully implementing a performance culture are as follows:

- It is important to have **Senior management support**: the support of the senior team has been a critical factor in the success of the Centrelink BSC;

- **Start simple—review often**: An incremental approach to the development and application of a Scorecard was adopted. Centrelink is just over four years old and it has a third generation Scorecard in place. The evolving sophistication of our Scorecard is a product of us building on the experience gained through earlier models;

- **Have relevant, useful and timely measures**: choose them carefully-avoid the trap of trying to measure everything;

- **Ensure that each measure is 'owned' by the responsible manager**: that is, the measure in clearly negotiated, defined and appropriate targets are set. Without ownership of measures, the relevance and usefulness of the Scorecard would be compromised or indeed seriously undermined;

- **Cascade Scorecard to all organisational levels**: use the Scorecard to inform all staff, not just senior management, and shortly demonstrate how to

cascade performance to all staff through the use of the on-line Scorecard tool;

- **A focus on performance improvement**: rather than on the allocation of blame for poor performance engenders a positive performance culture.

Maintaining the relevance and dynamics of the scorecard is an important challenge in a changing environment. Centrelink has found that the BSC implementation has been an evolutionary journey requiring ongoing review and refinement. Centrelink has embarked in a major review of the Scorecard which is discussed in chapter 4.

Appendix 3

Fieldwork visits

Fieldwork was undertaken at the following Area Support Offices and Customer Support Centres (CSC):

- Area West Australia;

- Milligan Street CSC;

- Mirrabooka CSC;

- Gosnells CSC;

- Joondalup CSC;

- Area West NSW;

- Springwood CSC;

- Kempsey CSC; and

- St Mary's CSC.

Appendix 4

BIP process changes from 2001-02 round to the current 2002-03 round

Centrelink provided the following text to demonstrate how BIP processes have changed from the 2001–02 round to the current 2002-03 round, as follows:

- the BIP process was advanced in the calendar year to facilitate completion of BIPs by all Teams ahead of the commencement of the new financial year;

- the annual Planning conference was advanced by three months to launch this, and the discussion for the 2002-03 round was focussed less on process and more on strategic issues that drive BIPs;

- the BIP approval and sign-off processes were completely revised, through consultations with the Executive of Centrelink and the contributing teams, to ensure a more transparent process, which has a faster turnaround for feedback, and enhanced logging of BIPs and sign-offs for governance processes;

- a new 20 per cent in-depth sampling of SES BIPs has been introduced specifically at the request of the CEO;

- Business Planning Team will complement this by undertaking a random sampling of customer service centre/call centre BIPs for quality assurance and consistency;

- the BIP template has been completely revised-format, style, process flow. A simpler modified version for customer service centres (derived from the BIP template used by all SES led Teams) was developed specifically at the request of, and with major design input from, customer service centre staff;

- embedding BIPs into ongoing management and team processes to ensure that BIPs are constantly or regularly reviewed and updated-a new emphasis on viewing BIPs as a 'living electronic' document rather than a static paper document was introduced this time;

- the BIP Guide was completely rewritten, to enhance direction and provide practical examples of how to complete the BIP;

- BIPs are to be more easily accessed consistently across the organisation: Business Planning Team is ensuring that BIPs are held on SES led Teams' intranet sites (with minimal clicks to access these); and

- responsibility for BIP processes was placed unambiguously with the Business Planning Team. This has enabled Centrelink to address swiftly the issues that were obvious in 2001, that have been commented on in this report.

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