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Performance Audit

Administration of the Primary Care Infrastructure Grants Program

Department of Health and Ageing

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
19 June 2012

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Health and Ageing with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Administration of the Primary Care Infrastructure Grants Program*.

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

Yours sincerely

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ANAO	Australian National Audit Office
CGGs	*Commonwealth Grant Guidelines Policies and Principles for Grants Administration*, July 2009
COAG	Council of Australian Governments
DIGBI	Database of Infrastructure Grants Business Information
DoHA	Department of Health and Ageing
ERC	Expenditure Review Committee
FMA Act	*Financial Management and Accountability Act 1997*
FMA Regulation 9	Regulation 9 of the *Financial Management and Accountability Regulations 1997*
GP	General practitioner
HHF	Health and Hospitals Fund
ICT	Information and communications technology
KPI	Key performance indicator
NPP	New policy proposal
NRRHIP	National Rural and Remote Health Infrastructure Program
OATSIH	Office of Aboriginal and Torres Strait Islander Health, DoHA
PBS	Portfolio Budget Statements
PCIG	Primary Care Infrastructure Grant
PFPS	Program Funding and Procurement Service
QAR	Quality assurance review

Summary and Recommendations

Summary

Introduction

1. The $117 million Primary Care Infrastructure Grants (PCIG) program was one of a number of measures announced by the Australian Government in the 2010–11 Budget intended to reform the primary healthcare sector[1] as a means of addressing the long-term financial sustainability of the Australian health system.

2. The decision to reform primary care was informed by the National Primary Health Care Strategy[2], which was released with the 2010–11 Budget. The report supporting the strategy acknowledged that 'strengthening and improving the way in which primary healthcare is provided is vital in determining how well the health system responds to current and emerging pressures'.[3] The report also highlighted the benefits of increasing the focus on primary healthcare within the overall health system, including:

- reducing the incidence of chronic disease in the community, through preventative health measures;
- minimising the number of hospital admissions and reducing their length by providing clinically appropriate care in the community; and
- improving overall equity in healthcare by reducing disadvantage flowing from where people live, their ability to pay, or their particular health conditions.[4]

3. The strategy had noted that shortcomings in the existing physical infrastructure provided a barrier to the delivery of better primary healthcare. A

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1 Primary healthcare is care provided by health professionals working in the community, as opposed to hospitals, institutions or specialist services. It is usually considered to include general practitioners, dentists and nurses working in private practices or community health services or Aboriginal Medical Services, allied health professions (such as physiotherapists, dieticians and mental health counsellors) and pharmacists.

2 Department of Health and Ageing, *Building a 21st Century Primary Health Care System: Australia's First National Primary Health Care Strategy*, Canberra, May 2010. The National Primary Health Care Strategy was developed from 2008 to 2010 to support future investment in, and reform of, the primary healthcare system.

3 Department of Health and Ageing, *Report to Support Australia's First National Primary Health Care Strategy*, Canberra, 2009, p. 8.

4 ibid., p. 5.

particular shortcoming it identified was a lack of available space in many general practices, which was seen as inhibiting the delivery of a broader range of integrated services by general practitioners, practice nurses and other health professionals.

4. The Government funded the PCIG program over two competitive grant funding rounds in 2010 and 2011 to upgrade or extend the physical infrastructure of around 425 existing general practitioner (GP) facilities.[5] In addition to funding extra or improved floor space at GP practices for the delivery of a broader range of services, the program was designed to boost the capacity of practices to accommodate increased levels of clinical training placements and training facilities, to support the future primary care workforce.

5. Grants for the two funding rounds were provided through three streams—A, B and C—with maximum grants for each stream being $150 000, $300 000 and $500 000 respectively.[6] Organisations or individuals were required to be currently providing GP services at an existing facility to be potentially eligible for funding. A condition of the grants was that the health services and workforce training delivered through the relevant facility be maintained for a period of two to five years, depending on the funding stream.

6. The Department of Health and Ageing (DoHA) is responsible for administering the PCIG program. The department's administrative responsibilities under the program include assessing applications and providing a merit-based, ranked list of applicants within each of the three funding streams for consideration by the Minister for Health and Ageing (Minister). Following the Minister's policy approval[7] of the quantum of funding for each stream—which had the effect of generating a shortlist of

[5] The May 2010 Budget also contained a $245 million expansion of the existing GP Super Clinics program. That program was established in 2008 to provide multi-million dollar grants to establish large or medium-sized medical centres to provide 'one-stop shop' primary health services. Such centres could involve the construction of entirely new facilities and/or the refurbishment of existing facilities.

[6] Projects funded under stream A were only required to satisfy the first two program objectives (those relating to upgrading or extending existing facilities, and providing access to new health services); those under stream B were required to satisfy the first two plus an additional two objectives (strengthening team-based approaches to care and providing extended opening hours) and those under stream C were required to satisfy all five program objectives (the first four plus increasing training facilities).

[7] The term 'policy approval' is used to distinguish the Minister's decisions regarding the allocation of funding between the grant streams 'pools' from that of a DoHA official providing financial approval of grant spending proposals under Regulation 9 of the *Financial Management and Accountability Regulations 1997* (FMA Regulation 9).

preferred applicants for each stream[8]—DoHA negotiated individual funding agreements with preferred applicants and, if these negotiations were successful, provided the necessary financial approvals to commit Commonwealth resources through the formal offer of grant funding to the applicants. Following execution of the relevant funding agreement, DoHA administered the awarded grant in line with the funding agreement. While the PCIG program involved two funding rounds, which have concluded, the administration of funding agreements will continue for some years.

7. As a competitive grants program, the PCIG is subject to the *Commonwealth Grant Guidelines* (CGGs).[9] The CGGs state that the fundamental objective of grants administration is to 'establish the means to efficiently, effectively and ethically administer Australian Government funding to approved recipients in accordance with government policy outcomes'.[10] This objective is supported through the Australian Government's financial management framework, which includes a requirement to make proper use of Commonwealth resources[11], and the seven key principles for grants administration set out in the CGGs, which include the principle of achieving value with public money.[12]

Audit objective, criteria and scope

8. The objective of the audit was to assess the effectiveness of DoHA's support for improved access to integrated GP and primary healthcare services through its administration of the PCIG program.

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8 Establishing an overall budget for each of the streams had the effect of drawing a line on the merit list for each stream, with projects above the line able to be funded, and projects below the line unable to be funded (unless a shortlisted project was ultimately not awarded a grant, thus releasing those funds for another grant).

9 Department of Finance and Deregulation, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009. The CGGs 'establish the policy framework and articulate the Government's expectations for all departments and agencies … subject to the *Financial Management and Accountability Act 1997* (FMA Act) … and their officials, when performing duties in relation to grants administration', paragraph 3.24.

10 ibid., p. 3.

11 'Proper use' in this context means the 'efficient, effective, economical and ethical use of Commonwealth resources that is not inconsistent with the policies of the Commonwealth', as specified in section 44 of the FMA Act and FMA Regulation 9. Often, this is referred to as a 'value for money' test.

12 Department of Finance and Deregulation, op cit., p. 30. The CGGs provide that the grants administration function itself should provide value for public money, as should the selection of grant recipients to deliver grant outcomes.

9. The audit examined DoHA's performance in the establishment, initiation and administration of the program against relevant policy and legislative requirements for the expenditure of public money and the key principles contained in the CGGs.[13] In this context, the audit examined whether DoHA had:

- established and initiated the program so that it was fit for the purpose of supporting infrastructure grants initiatives intended to improve access to integrated GP and primary healthcare services;
- appropriately assessed applications and provided appropriate advice to the Minister in relation to assessment outcomes and related matters;
- effectively negotiated projects with shortlisted applicants, properly approved grants and promptly executed funding agreements;
- effectively administered individual grants during the construction phase;
- established a program evaluation strategy that incorporated a robust key performance indicator (KPI) reporting framework; and
- incorporated major 'lessons learned' from the 2010 funding round in the 2011 round.

10. The audit examined DoHA's assessment of applications and advice to the Minister on assessment outcomes for both the 2010 and 2011 rounds. Given that the primary evidence collection phase of the audit concluded in December 2011, the audit examined the funding agreement negotiation, financial approval, individual grant administration, and performance reporting processes for the 2010 round. However, recognising that DoHA made changes to the funding agreement negotiation process for the 2011 round, the ANAO examined whether these changes resulted in a reduction in the delays experienced in the 2010 round in finalising such negotiations and executing funding agreements.

[13] Where relevant, the audit also considered DoHA's administration in the context of the ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, Canberra.

Overall conclusion

11. The PCIG program forms part of the Australian Government's reforms to the primary healthcare sector, which are intended to improve the sustainability of the healthcare system as a whole. By contributing $117 million towards the upgrade of around 425 primary healthcare facilities, the PCIG program aims to improve community access to integrated GP and other primary healthcare services as a means of reducing the incidence of chronic disease and minimising the use of more expensive hospital services.

12. DoHA is making steady progress in implementing the PCIG program in a manner consistent with the objectives set by the Government. The first round of PCIG grants, launched in 2010, has to date[14] funded 214 facilities at a cost of $54.4 million[15], while the second (and final) round launched in 2011 has funded 66 facilities at a cost of $19.1 million, with the potential to fund a total of over 190 facilities. Grant recipients have to date completed 72 projects.

13. In establishing the PCIG program, DoHA put in place many of the fundamentals for the effective administration of a competitive grants program, as set out in the *Commonwealth Grant Guidelines* (CGGs). The department facilitated the development of grant program guidelines within a very compressed timeframe[16], which were approved by the Expenditure Review Committee of Cabinet and made publicly available, as then required by the CGGs.[17] In the limited time available for planning the first funding round, DoHA also: undertook a risk assessment of the program; developed key performance indicators and incorporated some elements of an evaluation strategy; took measures to train program staff and introduced elements of quality assurance review for assessments; and drew on the knowledge of the more established GP Super Clinics program as well as other areas in the department with experience in administering infrastructure grants programs, including the internal Program Funding and Procurement Service.[18]

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[14] As at 12 April 2012.

[15] With another 14 funding agreements still under negotiation or awaiting formal approval.

[16] While the program was announced in the May 2010 Budget, the Government required an early opening for PCIG applications on 25 June 2010.

[17] On 27 September 2010, the Government decided that guidelines for new programs were to be submitted to the Expenditure Review Committee on a case-by-case basis.

[18] The Program Funding and Procurement Service is a unit within DoHA established to contribute to program outcomes by advising program managers on best practice procurement, funding and contract management.

14. In launching and delivering the program, DoHA: adopted effective measures to raise awareness of the scheme to potential applicants; developed an appropriate approach to negotiating timelines, milestones and progress payments for grant funding agreements; and established a monitoring framework to administer grants from the execution of funding agreements to the completion of infrastructure construction works.

15. Furthermore, the department improved the overall effectiveness of program administration in the 2011 funding round, drawing on lessons learned from the 2010 round. Specifically, there were improvements in the assessment process, which resulted in a more consistent approach to scoring grant applications, and changes to the process for negotiating funding agreements, which expedited the execution of such agreements compared to the time taken in the 2010 round.

16. Notwithstanding these achievements, limitations were evident in the approach adopted by the department for assessing the value for public money[19] offered by individual project proposals and the transparency of that approach. While the program guidelines set out the two selection criteria used to assess applications, they did not include any information about the relative weighting to be given to the criteria by the department, as these weightings were only finalised by DoHA on the day that applications for the 2010 round closed[20], some two months after the 2010 guidelines were published.[21] Moreover, the selection criteria were heavily weighted towards one of the key program objectives, the delivery of physical infrastructure, as compared to the other key program objective, improved access to new primary care services. While there is no requirement to inform applicants of the weightings to be

[19] As mentioned in footnote 11, under the Commonwealth's financial framework, the overall test for the 'proper use' of public money is the 'efficient, effective, economical and ethical use of Commonwealth resources that is not inconsistent with the policies of the Commonwealth', as specified in section 44 of the FMA Act and FMA Regulation 9. Often, this is referred to as a 'value for money' test. The CGGs provide that the objective of a grants appraisal process is to 'select projects/activities that best represent value for public money in the context of the objectives and outcomes of the granting activity.' Department of Finance and Deregulation, op. cit. p. 30.

[20] Applications for the 2010 round closed on 20 August 2010.

[21] Guidelines for the 2010 round were published on 25 June 2010.

given to criteria, it does help applicants shape their submissions if they are aware that selective weightings will be applied.[22]

17. In the assessment process, a weighting of up to 64 per cent of the total available assessment score was assigned to projects that satisfied program objective 1—to upgrade or enhance existing facilities.[23] In contrast, the next most heavily weighted element relating to program objective 2 (the potential to provide access to new services)[24] was assigned a weighting of up to 26 per cent of the total available assessment score. This approach to weighting, which favoured physical infrastructure, was also evident in the department's approach to program objective 5—the development of training facilities.[25] While program objective 5 was allocated a relatively low weighting of nine per cent, projects satisfying this objective could potentially have their maximum funding increased by up to 66 per cent, from $300 000 to $500 000.[26]

18. The capacity of DoHA staff to assess value for money was also inhibited by an assessment process and program guidance which indicated that they should focus on the level of detail provided by applicants and any 'deficiencies' in documentation[27], a compliance-driven approach, rather than making use of that information to form a view on the relative value for public money offered by projects. Further, while the assessment process assigned 10 per cent of the final weighting to the 'efficient and effective use of funds',

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[22] The transparency, consistency and defensibility of the assessment process will be supported by the grant program guidelines making clear the extent, if any, to which nominated assessment criteria will be more heavily weighted (or favoured) in determining an application's overall assessment and, where relevant, relative ranking in comparison to competing applications: ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, p. 66. DoHA advised that no information was contained in the 2010 Guidelines due to time constraints resulting from the Government's decision to quickly launch the program. While the department did not face similar timing pressures in 2011, information on the weightings was not included in the 2011 guidelines.

[23] The terms of objective 1 were: 'to upgrade or extend existing facilities to provide space for additional general practitioners, nurses and allied health professionals and/or student[s] on clinical placements.'

[24] The terms of objective 2 were: 'to provide access to new services that meet local community health needs with a focus on preventative activities and better chronic disease management.'

[25] The terms of objective 5 were: 'to develop new, or enhance existing, clinical training facilities.'

[26] Objective 5 was the single additional criterion required to raise the maximum funding amount potentially available from $300 000 (for projects satisfying stream B criteria) to $500 000 (for projects satisfying stream C criteria).

[27] In the case of the capital works budget, while applicants were required to provide costings for a range of matters, the assessment guidance focused on the extent to which the budget contained 'deficiencies', with a maximum score of five assigned if the budget had 'very minor or no deficiencies' and a score of one out of five assigned if the budget had 'major deficiencies/almost no detail'. This compliance-driven approach did not require assessors to form an opinion on value for public money based on a substantive assessment of the information provided by applicants.

which are key financial framework requirements in assessing value for money and the proper use of Commonwealth resources, the questions asked of applicants to assess efficiency[28] and effectiveness[29] related mainly to aspects of effectiveness. The questions largely sought to elicit information from applicants about local health issues facing their practices, while the sole question that addressed efficiency focused on the relatively narrow issue of the availability of other sources of funding, and assigned a one per cent rating if applicants identified other funding sources.[30]

19. DoHA incorporated elements of a monitoring and evaluation framework in the course of developing the program, including the development of key performance indicators (KPIs) of project performance. However, the majority of KPIs lacked specificity and measurability. The department has advised that it is refining the existing KPIs for future reporting purposes. In this context, there would be benefit in DoHA considering the contribution that revised indicators could make to future evaluation activity, such as the extent to which they address the overall effectiveness of the program against its key objectives and outcomes (including improved access to integrated primary care services) and are not limited to the delivery of physical infrastructure. There would also be benefit in undertaking focused evaluation activity to assess program effectiveness, drawing on available information and reporting processes.

20. Recognising that no further PCIG funding rounds are proposed, the audit has made two recommendations designed to strengthen DoHA's general administration of infrastructure grant programs, drawing on its experience in administering the PCIG program. The recommendations focus on: the explicit consideration and appropriate weighting of value for public money issues in grant assessment processes; and focused evaluation activity drawing on available information and reporting processes.

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28 Efficiency relates to maximising the ratio of outputs to inputs.

29 Effectiveness relates to the extent to which intended outcomes are achieved.

30 In contrast, the guidelines for the National Rural and Remote Health Infrastructure Program, also administered by DoHA, specified 'demonstrated value for money' as a selection criterion, weighted at 20 per cent of the total available assessment score. Assessors were required to consider whether the: project cost was effective relative to the gains to the community; outcomes of the project justified the funding investment; and the budget items had been fully costed and justified.

Key findings by chapter

Planning and Promoting the PCIG Program (Chapter 2)

21. Following the announcement of the program in the May 2010 Budget, DoHA was able to facilitate the development and approval of PCIG program guidelines by the Expenditure Review Committee of Cabinet for the 2010 round within very tight timeframes, in order to meet the Government's requirement for an early opening for PCIG applications on 25 June 2010. However, as previously discussed, the 2010 program guidelines did not provide any information about the weightings that would apply to the selection criteria, since such weightings had not been decided at that time of publishing the guidelines. The weightings subsequently adopted by DoHA, which were not publicly disclosed in either round, were heavily weighted in favour of the delivery of physical infrastructure, as compared to improved access to new primary care services.

22. Risk management was addressed as part of program planning, although some significant risks were not identified in the management plan. These included risks relating to tenure and recipients' legal structures, which arose regularly in the subsequent administration of the program, often resulting in delays in the negotiation and execution of funding agreements in the 2010 round.

23. DoHA effectively promoted the PCIG program, and the activities used to attract applications were generally well targeted at the potential grant recipient population.

Assessing Grant Applications (Chapter 3)

24. DoHA faced challenges in assessing the relative value for public money of competing PCIG projects due to: the diversity in the type, scale and location of infrastructure; differences in the new services proposed; and differing clinical training placement and facilities scenarios. Beyond these contextual difficulties, however, limitations in the design and implementation of the assessment process inhibited the department's capacity to assess value for money. As discussed previously, these limitations related to the weighting of selection criteria across the program outcomes, and the limited use made of information received from applications. The department's assessment process and program guidance had a strong compliance orientation, encouraging assessors to focus on the level of detail provided by applicants and any

'deficiencies' in documentation, rather than making use of that information to form a view on the relative value for public money offered by projects.

25. Other shortcomings in DoHA's processes and practices to assess the 2010 PCIG funding applications related to the consistency of assessments and the lack of a documented quality assurance review process. Based on an examination of a sample of 108 (from a total of 593) applications assessed by DoHA, the ANAO found a significant proportion of inconsistent assessment practices in the 2010 round. While some of these inconsistencies were limited to matters such as assessment comments, the ANAO identified four examples in its sample of 2010 assessments where more consistent scoring would have affected the application's shortlisting status, including in two cases where this would have moved applications from above to below the cut-off score for shortlisted applications.[31]

26. There was an improvement in the assessment of the 2011 PCIG applications, drawing on the lessons learned in the previous round. This was reflected in, among other things, a lower rate of inconsistencies being identified in the ANAO's analysis of grant assessments from the 2011 round. Nonetheless, based on an examination of 105 of the 418 applications assessed by DoHA, the ANAO again identified four examples where more consistent scoring would have affected the application's shortlisting status, including three cases where this would have moved applications from above to below the cut-off score for shortlisted applications. To help manage this risk, there would have been benefit in DoHA extending its quality assurance review of application assessments to focus on assessments close to the cut-off lines for each stream, and more fully documenting its review of assessments.

Negotiating, Approving and Executing Grants (Chapter 4)

27. DoHA's advice to the Minister regarding PCIG assessment outcomes supported the Minister's decision-making on the allocation of the pool of program funds between the three grant streams.[32]

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[31] However, as a significant number of shortlisted projects were not ultimately awarded grants, projects that were just below the cut-off score were generally approached by DoHA to enter into negotiations for funding agreements.

[32] A total of $64.5 million was available for the 2010 round, with the Minister deciding to allocate $14.9 million to stream A, $17.6 million to stream B, and $32 million to stream C. See also footnote 8.

28. DoHA's processes and practices to negotiate the PCIG 2010 round funding agreements were generally sound, with its approach to negotiating timelines, milestones and progress payments for grant funding agreements reflecting the better practice principles set out in the CCGs .

29. However, in many cases there were substantial delays in finalising agreement negotiations and executing agreements, often arising from unanticipated issues, such as those relating to tenure and recipients' legal structures. Based on data available as at December 2011, an average of around six months elapsed from the time of shortlisting the preferred applicants to executing the 2010 round funding agreements. Following changes made by DoHA in some of its negotiation processes for the 2011 round, the department has, as at April 2012, achieved a more rapid roll-out of executed funding agreements, with approximately double the number executed compared to the equivalent period in the 2010 round.

30. For the 2010 funding round, DoHA did not consistently comply with the mandatory grant reporting requirement to publish information on individual grants no later than seven working days after the funding agreement for the grant takes effect.[33] DoHA advised that timeliness is likely to have improved following the introduction of new processes in September 2011 to simplify data entry and minimise the risk of not satisfying this mandatory requirement in the 2011 funding round.

Administering Grants to the Completion of Infrastructure Construction (Chapter 5)

31. DoHA established a monitoring framework to inform the administration of the PCIG program through to the completion of infrastructure works. Milestone progress reports provided by recipients, as required by the relevant funding agreements, have generally contained relevant and sufficiently detailed information to effectively monitor progress and are in some cases used to trigger progress payments. DoHA's assessment of these milestone reports has been generally sound, although the department has adopted a 'light touch' to managing project delays and has tended to revise the existing funding agreements to accommodate delays rather than working more proactively with grant recipients to avoid or minimise delays. However, the ANAO's examination of a sample of executed funding agreements over

[33] Department of Finance and Deregulation op. cit., clause 4.2. See also Finance Circular 2009/04.

October and November 2011 indicated that such delays had not emerged as a significant problem across the program.[34]

32. DoHA's administration of project financial reports has also been sound.[35] That said, there were instances of omissions in, or delays in receiving, financial reports, which required follow-up by DoHA. This suggests that DoHA will need to carefully monitor such reporting in order to continue to provide assurance that Commonwealth funds have been used appropriately.

Developing Key Performance Indicators and Evaluating Program Performance (Chapter 6)

33. DoHA has incorporated elements of an evaluation framework into the development of the PCIG program. These elements included an articulation of the program objectives and outcomes, and associated KPIs. In addition, various reporting templates (including a project plan to assess proposed project-specific outcomes against program objectives, and a KPI template) were devised to assist with the evaluation of projects. However, no formal plan or strategy has yet been developed for the PCIG program setting out when and how the KPI reporting and other relevant information will be used to evaluate the overall performance of the program.

34. While the PCIG program KPIs developed by DoHA were generally relevant to the program objectives and were achievable, the majority of the program's KPIs were not specific[36] or measureable[37] which was noted in comments on the draft 2010 program guidelines provided to DoHA by the Department of Finance and Deregulation.

35. DoHA has provided recipients with templates to assist them to meet their reporting obligations. Based on a sample of 17 KPI reports available at the close of fieldwork, the ANAO observed that while many included reasonably detailed responses, the information did not generally facilitate the objective assessment of individual projects. As a result, aggregated KPI reporting was

[34] The sample included 29 projects for which funding agreements had been executed.

[35] Nineteen financial reports were examined by the ANAO in reaching this finding. Some grant recipients had not received funding in the 2010–11 financial year, or construction had not proceeded to a stage to require progress reporting, and so they had not been required to submit any funding reports as of the close of audit fieldwork in early December 2011.

[36] KPIs were not specific if they did not focus on results that can be attributed to the program.

[37] KPIs were not measurable if they did not include quantifiable units that can be readily compared over time.

unlikely to provide quantitative information regarding the achievement of program outcomes.

36. DoHA advised that it is refining the existing KPIs for future reporting purposes. These refinements are to be 'translated into the draft operational phase report templates that all applicants are required to report upon'. There would be merit in this revision taking into account the 'SMART' criteria[38] and, as discussed previously, considering the contribution that revised indicators could make to future evaluation activity, such as the extent to which they address the overall effectiveness of the program against its key objectives and outcomes (including improved access to integrated primary care services) and are not limited to the delivery of physical infrastructure. There would also be benefit in undertaking focused evaluation activity to assess program effectiveness, drawing on available information and reporting processes.

DoHA response

37. The Department of Health and Ageing notes the audit report and agrees with the recommendations.

[38] The 'SMART' criteria require KPIs to be: specific, measurable, achievable, relevant and timed.

Recommendations

Recommendation No.1

Para 3.52

The ANAO recommends that DoHA more consistently applies better practices in assessing applications for infrastructure grant programs, with a focus on ensuring that achieving value with public money is explicitly considered and appropriately weighted in assessment processes.

DoHA response: Agreed.

Recommendation No.2

Para 6.23

Recognising that the allocation of grants under the PCIG program is largely complete, the ANAO recommends that DoHA undertake focused evaluation activity to assess program effectiveness, drawing on available information and reporting mechanisms.

DoHA response: Agreed.

Audit Findings

1. Introduction

This chapter provides the context for the audit, including an overview of the Primary Care Infrastructure Grants program, and outlines the audit objective, scope and methodology.

Primary healthcare in Australia

1.1 Primary healthcare is care provided by health professionals working in the community, as opposed to hospitals, institutions or specialist services. It is usually considered to include general practitioners (GPs), dentists and nurses working in private practices or community health services or Aboriginal Medical Services, allied health professionals (such as physiotherapists, dieticians and mental health counsellors) and pharmacists. Funding for primary healthcare is shared between the Commonwealth and the states and territories[39], although the proportion varies according to the particular service.

1.2 There has been considerable effort over the last two decades to improve the degree of integration between various primary healthcare providers (as well as other parts of the healthcare sector) to foster more structured, coordinated and multidisciplinary care and increase the emphasis on preventative health and early detection of disease, particularly in light of the growing incidence of chronic diseases and an ageing population. The establishment of the Divisions of General Practice and various initiatives to facilitate Medicare funding for a greater range of primary healthcare services has assisted this process. State and territory governments have also adopted a range of programs targeting the same issues.

Following its election in 2007, the Government initiated a number of processes to further develop its health policies, with a significant focus on Commonwealth and state relationships in the healthcare sector. Among these initiatives was the development of the National Primary Health Care Strategy.[40]

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[39] The Commonwealth funds general practices (via Medicare), but the states and territories do not. Both levels of government contribute funding for community health services and Aboriginal Medical Services.

[40] The National Primary Health Care Strategy proceeded alongside other key policy processes, notably the work of the National Health and Hospitals Reform Commission, but also the work of the National Preventative Health Taskforce and more specified developments such as the Rural Workforce Audit (Department of Health and Ageing, *Report on the Audit of Health Workforce in Rural and Regional Australia*, Canberra, April 2008).

1.3 In the development of the strategy, the case for primary healthcare reform in Australia was put in the following terms:

> Increasingly, both in Australia and overseas, there is recognition that strengthening and improving the way in which primary health care is provided is vital in determining how well the health system responds to current and emerging pressures.
>
> Research shows that those health systems with strong primary health care are more efficient, have lower rates of hospitalisation, fewer health inequalities and better health outcomes including lower mortality, than those that do not. The recently released World Health Organization (WHO) Report, *Primary Health Care: now more than ever*, calls for a return to primary health care to help align health systems to deliver better performance and equity. The WHO Report found that where countries at the same level of economic development are compared, those that were organised around the tenets of primary health care produced a higher level of health for the same investment. There are a number of reasons why reforms to primary health care service provision and restructuring the health system to place greater focus on primary health care are needed:
>
> - the first is the burden of disease, workforce pressures and effects on patient wellbeing from increasing rates of chronic disease;
> - the second is to minimise the need for people to be admitted to hospitals and for people to spend less time in hospital by providing clinically appropriate care in the community; and
> - a third reason is evidence that not all people are receiving equitable levels of primary health care services due to where they live, their ability to pay or their health condition.
>
> Together these factors are placing growing pressure on our existing services and providers, and leaving more consumers with potential gaps in care. At the same time, growing fiscal pressure requires governments to ensure the investment of public funds is well targeted and cost-effective.
>
> Given long-term health expenditure trends, an important goal for primary health care reform must be to ensure the long-term financial sustainability of the Australian health system. [41]

[41] Department of Health and Ageing, *Report to Support Australia's First National Primary Health Care Strategy*, Canberra, 2009, p. 5.

Improving primary healthcare through better physical infrastructure

Proposals for improvement

1.4 The National Primary Health Care Strategy report noted that one of the barriers to the delivery of better primary healthcare was shortcomings in the existing relevant physical infrastructure, including in relation to existing general practices. These shortcomings included a lack of space in many general practices[42], which was seen as inhibiting the provision of a broader range of integrated services by GPs, practice nurses and allied health professionals. Space limitations were also making it difficult for practices to accommodate clinical placements and to facilitate training opportunities. The report concluded that improving relevant infrastructure was one of five 'key enablers' to assist the improvement of primary healthcare services in Australia.[43]

1.5 Strengthening primary healthcare services was also an important theme in the National Health and Hospitals Reform Commission report of June 2009. In addition to various other funding and policy recommendations, the report proposed[44]:

> improving access to a more comprehensive and multidisciplinary range of primary health care and specialist services in the community, through the establishment of Comprehensive Primary Health Care Centres and Services, which would be available for extended hours.

1.6 The National Health and Hospitals Reform Commission report proposed that the development of these comprehensive primary healthcare centres and services should be promoted by the Commonwealth through the provision of a mix of capital and establishment grants. In relation to existing primary healthcare service providers, the National Health and Hospitals Reform Commission report suggested that they 'could combine and evolve

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[42] The report noted that in 2010 around 36 per cent of general practices across Australia had only one doctor, with a further 43 per cent having 2-5 doctors, and larger practices making up 21 per cent of all practices. However, these proportions vary significantly—for example, around 63 per cent of practices in the Northern Territory had only one doctor compared to 23 per cent in the ACT: PHC RIS Fast Facts, *General Practice size*, see <http://www.phcris.org.au/fastfacts/index.php>.

[43] The other four enablers of better primary healthcare services were: improving regional integration; better health information systems and technologies; increasing and better geographical distribution of a skilled healthcare workforce; and providing sustainable financing and system performance arrangements.

[44] National Health and Hospitals Reform Commission, *A Healthier Future for all Australians*, June 2009, p. 6.

into these larger groups'[45], but did not provide any detail regarding how to achieve such evolution.

The Government's response to improving primary healthcare infrastructure

1.7 The Government's policy response to improve relevant primary healthcare infrastructure was foreshadowed in the draft National Primary Health Care Strategy, released in August 2009:

> New and enhanced facilities could include comprehensive primary health care services—one stop shops offering a wide range of services—or smaller enhancements to private general practices to support a broader team, teaching or visiting sessions from other health professionals.[46]

1.8 These 'smaller enhancements' were implemented through a grants scheme intended to support existing providers of general practice services, which was subsequently called the Primary Care Infrastructure Grants (PCIG) program.[47]

1.9 The Government released its response to the National Health and Hospitals Reform Commission report, and the National Primary Health Care Strategy process, in the 2010–11 Budget. In relation to primary healthcare infrastructure, that response reflected a dual approach to improve access to integrated GP and primary healthcare, comprising:

- the expansion of the existing GP Super Clinics program. That program was established in 2008 to provide multi-million dollar grants to build new large or medium-sized medical centres to provide 'one-stop shop' primary health services; and
- the establishment of the PCIG program, to upgrade or expand facilities in many existing general practices, primary care and community health services, and Aboriginal Medical Services.

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45 ibid., p. 104.

46 Department of Health and Ageing, *Building a 21st Century Primary Health Care System: A Draft of Australia's First National Primary Health Care Strategy,* Canberra, August 2009, p. 16.

47 Although the PCIG initiative is not recognised by the Department of Health and Ageing as a distinct program, this report will refer to it as a program in the interests of clarity.

The Primary Care Infrastructure Grants program

1.10 The PCIG program was established as an executive grants program, with funding of $117 million[48] over four years, starting in 2010–11. It was expected to be used to upgrade around 425 GP facilities.

1.11 The program's broad aim was to improve community access to integrated GP and primary healthcare services. Specified program outcomes included:

- additional primary care infrastructure in existing general practices, primary health and community care services, and Aboriginal Medical Services;
- a broader range of primary healthcare services for communities and increased access to services for individuals; and
- increased support for the future primary care workforce through:
  - the provision of additional clinical training placements; and
  - new or enhanced clinical training facilities.

1.12 Funding was in the form of one-off grants, provided through two rounds in 2010 and 2011 across three principal funding streams:

- stream A—grants of up to $150 000 each;
- stream B—grants of up to $300 000 each; and
- stream C—grants of up to $500 000 each.

1.13 Maximum funding across the three grant streams was $64.5 million for the 2010 round and $52.5 million for the 2011 round. Each stream was allocated an indicative proportion of the maximum funding available for the relevant round, although the funds would be managed 'flexibly' across the three streams.

1.14 Organisations or individuals were required to be currently providing GP services at an existing facility[49] in order to be potentially eligible for funding. Once this threshold qualification was satisfied, eligibility for funding

[48] All program and grant figures are quoted exclusive of Goods and Services Tax (GST).

[49] Due to ambiguity about what constituted a 'facility', this term was changed to 'premises' for the 2011 round.

under the various streams was determined by the extent to which grant applicants satisfied the PCIG program objectives applicable to that stream, as shown in Table 1.1.

Table 1.1

Eligibility for PCIG funding streams

Objective number	Objective	Stream[A]
1	Upgrade or extend existing facilities to provide space for additional general practitioners, nurses and allied health professionals and/or students on clinical placements.	Applicable to Streams A, B, C
2	Provide access to new services that meet local community health needs with a focus on preventative activities and better chronic disease management.	Applicable to Streams A, B, C
3	Strengthen team-based approaches to the delivery of care by providing, for example, additional space for case conferencing and/or group activities such as lifestyle modification clinics and/or shared service delivery by more than one health professional.	Applicable to Streams B, C
4	Provide extended hours of service where these do not exist, for example additional services in the early morning, later in the evening or on weekends.	Applicable to Streams B, C
5	Develop new, or enhance existing, clinical training facilities.	Applicable to Stream C

Note: (A) An application for a Stream A grant was required to address program objectives 1 and 2, whereas an application for Stream B had to address objectives 1-4, and an application for Stream C, objectives 1-5.

Source: PCIG 2010 and 2011 Guidelines.

1.15 PCIG funding could be used for: construction and fit-out work; associated design and professional services; development application fees; supply and installation of information and communications technology (ICT) hardware and software; and supply and installation of essential medical equipment. Funding could not be used to: purchase existing facilities or land; purchase consumables, other recurring items or services; or pay for ongoing staff or student accommodation. Funding was through progressive payments, and subject to achievement of successive key milestones.

1.16 A condition of PCIG funding was that the services and workforce training being delivered through the relevant facility must be maintained for a 'designated use' period. This period is two years for grants awarded under Stream A, three years for Stream B, and five years for Stream C. Any change of ownership of the funded facility during the designated use period required approval by the Commonwealth.

1.17 Grant recipients were also required to provide periodic reports, including reports against specified key performance indicators once construction of the funded infrastructure was completed.

Administering agency

1.18 The Department of Health and Ageing (DoHA) has responsibility for administering the PCIG program.[50] Among its many roles, DoHA would assess applications and, based on this assessment, provide a merit-based, ranked list of applicants within each of the three funding streams for consideration by the Minister for Health and Ageing (the Minister). The Minister then provided a policy approval of the amount of funding for each stream, which had the effect of generating a 'shortlist' of preferred applicants from the rankings supplied to her. DoHA would negotiate individual funding agreements with these preferred applicants and, if these negotiations were successful, formally offer grant funding to the applicants. It would then administer the awarded grants against the funding agreements.

Progress in implementing the PCIG program

1.19 The Minister announced the list of preferred applicants from the 2010 round on 25 November 2010, and the equivalent list from the 2011 round on 16 November 2011. Table 1.2 shows the progress in implementing both PCIG rounds to 12 April 2012.

[50] Implementation of the program was handled by the Primary and Ambulatory Care Division of DoHA.

Table 1.2

Implementation of the PCIG 2010 and 2011 rounds to 12 April 2012

Number of:	2010 round[A]	2011 round[B]
Applications	593	418
Preferred applicants announced by the Minister	240[51]	189[52]
Grants awarded to preferred applicants by DoHA	214	66
Projects completed	72	2
Projects underway but not completed	88	20
Funding agreements approved but projects not yet underway	54	44
Funding agreements being negotiated or awaiting formal approval by DoHA	14	124

Notes: (A) The 2010 round closed on 20 August 2010.

(B) The 2011 round closed on 10 June 2011.

Source: ANAO analysis of DoHA data.

Audit objective and criteria

1.20 The objective of the audit was to assess the effectiveness of DoHA's support for improved access to integrated GP and primary healthcare services through its administration of the PCIG program.

1.21 The audit examined DoHA's performance in the establishment, initiation and administration of the program against relevant policy and legislative requirements for the expenditure of public money and the key

[51] Twenty-eight of the preferred applicants originally announced by the Minister in the 2010 round subsequently withdrew their applications for various reasons (including where funding agreement negotiations were unsuccessful). However, as noted in Chapter 4, the Minister agreed to a process whereby, should funding agreement negotiations be unsuccessful, DoHA would commence negotiations with the applicant that was next on the merit list (that is, an applicant that was effectively on a 'reserve' list). The number of applicants from the reserve list with whom funding agreements have been executed, or with whom funding agreements were still be finalised, will not be sufficient to replace the total number of withdrawn applicants. As a result, as noted in Chapter 4, there will be an under allocation of funds from the 2010 round, though at least some that has been reallocated to the 2011 round.

[52] Subsequent to the Minister's announcement of 189 preferred applicants, the Minister agreed that the Department of Health and Ageing should enter into discussions with up to another four applicants (see paragraphs 4.27–4.28). As at 12 April 2012, discussions with one applicant had progressed to active negotiation of a funding agreement.

principles contained in the *Commonwealth Grant Guidelines*.[53] In this context, the audit examined whether DoHA had:

- established and initiated the program so that it was fit for the purpose of supporting infrastructure grants initiatives intended to improve access to integrated GP and primary healthcare services;
- appropriately assessed applications and provided appropriate advice to the Minister in relation to assessment outcomes and related matters;
- effectively negotiated projects with shortlisted applicants, properly approved grants and promptly executed funding agreements;
- effectively administered individual grants during the construction phase;
- established a program evaluation strategy that incorporated a robust key performance indicator (KPI) reporting framework; and
- incorporated major 'lessons learned' from the 2010 funding round in the 2011 round.

1.22 The audit examined DoHA's assessment of applications and advice to the Minister on assessment outcomes for both the 2010 and 2011 rounds. Given that the primary evidence collection phase of the audit concluded in early December 2011, the audit examined the funding agreement negotiation, financial approval, individual grant administration, and KPI reporting only for the 2010 round. However, recognising that DoHA made changes to the funding agreement negotiation process for the 2011 round, the ANAO examined whether these changes reduced the delays experienced in the 2010 round in finalising such negotiations and executing funding agreements.

1.23 Four of the five program objectives (objectives 2 to 5 in Table 1.1) relate to services provided and outcomes achieved after the project construction has been completed. As these services had been provided for only a short period of time and for relatively few projects at the time of audit fieldwork (September to December 2011), the audit does not examine the extent to which the program achieved such objectives. However, Chapter 6 does canvass whether

[53] Department of Finance and Deregulation, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009. Where relevant, the audit also considers DoHA's administration in the context of the ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, Canberra.

the KPI framework is capable of providing sufficient information to quantify the extent to which the program may be achieving these objectives once larger numbers of grant recipients start reporting during their designated use periods.

1.24 The audit methodology included:

- interviewing key personnel at DoHA's Central Office, both senior management and those directly involved in conducting the 2010 and 2011 round assessment processes;
- interviewing selected stakeholders operating in, or representing persons in, the primary healthcare sector;
- reviewing relevant DoHA documentation, including policies, procedures, agreements, briefings, advice and correspondence;
- visiting 14 projects funded under the PCIG 2010 round and interviewing the relevant grant recipients;
- examining a sample of application assessments from both the PCIG 2010 and 2011 rounds;
- examining a sample of shortlisted 2010 round projects, focusing on the funding agreement negotiation process, and the subsequent administration of those projects that were awarded grants as a result of successful negotiations; and
- examining a sample of project reports submitted by recipients of 2010 round grants, covering construction progress, financial measures and KPIs.

Previous audits

1.25 The ANAO has not previously audited DoHA's administration of the PCIG program. The ANAO has, however, previously examined DoHA's administration of primary care funding agreements, with the findings and conclusions reported in ANAO Audit Report No. 41 2005–06, *Administration of Primary Care Funding Agreements*. An audit of DoHA's administration of the Health and Hospitals Fund program is also being conducted as part of the current ANAO Audit Work Program.

Audit standards and cost

1.26 The audit was conducted in accordance with ANAO auditing standards, at a cost to the ANAO of around $395 000.

Structure of the audit

1.27 As illustrated in Figure 1.1, the structure of the report largely reflects the audit criteria outlined in paragraph 1.21. However, discussion of the 'lessons learned' criterion is incorporated into each of the chapters rather than dealt with as a separate chapter.

Figure 1.1

Structure of the audit report

Chapter 2 **Planning and Promoting the PCIG Program**	Examines DoHA's processes to plan and promote the PCIG program, particularly by developing program guidelines and attracting candidates for grant funding.
Chapter 3 **Assessing Grant Applications**	Examines DoHA's assessment processes for PCIG applications in both the 2010 and 2011 rounds.
Chapter 4 **Negotiating, Approving and Executing Grants**	Examines the negotiation of individual grant funding agreements and the subsequent approval and execution of these agreements.
Chapter 5 **Administering Grants to Completion of Infrastructure Construction**	Examines DoHA's administration of individual 2010 round project grants after execution through to the completion of construction of the relevant infrastructure, including monitoring the achievement of the key milestones, making progress payments based on these achievements, and processing financial acquittal.
Chapter 6 **Developing Key Performance Indicators and Evaluating Program Performance**	Examines the development and implementation of the key performance indicator reporting framework and DoHA's plans for evaluating program performance.

Source: ANAO.

2. Planning and Promoting the PCIG Program

This chapter examines DoHA's processes to plan and promote the PCIG program, particularly by developing program guidelines and attracting candidates for grant funding.

2.1 DoHA advised the Government on the creation of the PCIG program in the 2010–11 Budget context, and was subsequently responsible for the program's administration, including:

- design and planning; and
- attracting candidates for grant funding.

Design and planning

2.2 Robust design and planning is one of the key principles for grants administration set out in the *Commonwealth Grant Guidelines*. Key elements of design undertaken by DoHA for the PCIG program were to: develop an implementation timeline and promulgate program guidelines; and plan the implementation.

Developing an implementation timeline and program guidelines

2.3 Following the May 2010 Budget announcement, DoHA commenced work on an implementation timeline and the drafting of a combined guideline document for the GP Super Clinics and PCIG programs.[54] The development and publication of such guidelines is a mandatory requirement under the Commonwealth Grant Guidelines.[55]

2.4 In early June 2010, a draft timeline, covering both the GP Super Clinics and PCIG programs, was provided by DoHA to the office of the Minister for Health and Ageing (Minister's office) for comment. That timeline had a proposed common opening date for applications for both grant programs of 20 August 2010. A revised timeline then brought forward the proposed

[54] As outlined in Chapter 1, the expanded GP Super Clinics program and the newly established PCIG program were both grant programs intended to fund additional, enhanced primary healthcare infrastructure in order to improve community access to integrated GP and primary healthcare.

[55] Department of Finance and Deregulation, op. cit., paragraph 3.24.

common opening date to 24 July 2010. Shortly afterwards, however, the Minister's office advised DoHA that the GP Super Clinics and PCIG processes should be separated, with two discrete sets of guidelines and timelines, with the intention of further expediting an early opening date for PCIG applications. Applications for the 2010 round ultimately opened on 25 June 2010.

2.5 The decision to select an opening date for the program in late June rather than late August 2010, as proposed by DoHA, precluded the option of a consultation period with stakeholders regarding the content of the 2010 PCIG guidelines[56], and required work on the guidelines to be finalised relatively quickly.

2.6 Input on the guidelines was sought from external legal advisors, and from within DoHA, notably through the Program Funding and Procurement Service.[57] Advice was also sought from the Department of Finance and Deregulation, and the Department of the Prime Minister and Cabinet. A revised draft of the program guidelines was emailed to an advisor in the Minister's office on 18 June 2010, with an 'approved' version received back from the office on 21 June 2010. This version was forwarded to the Department of Finance and Deregulation on the same morning, with comments received in the early afternoon. A teleconference was then held with the Department of Finance and Deregulation to discuss those comments, resulting in further minor revisions.

2.7 As required at that time under the *Commonwealth Grant Guidelines*[58], the guidelines were considered by the Expenditure Review Committee (ERC) on 22 June 2010. The PCIG guidelines were subsequently considered and agreed by the Government on 25 June 2010, and then published electronically as part of the publicly available PCIG 'Invitation to Apply' package.[59]

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[56] This option was contained in the initial timeline provided to the Minister's office, but was not subsequently pursued in order to meet the truncated timeline.

[57] The Program Funding and Procurement Service is designed to contribute to program outcomes through advising program managers on best practice procurement, funding and contract management. DoHA advised the ANAO that the branch responsible for developing the PCIG program 'did consult with a variety of capital works areas during the planning and design phase of the PCIG program'. In addition, since this branch was also responsible for GP Super Clinics program, it was able to draw on its experience of the development and implementation of that program since 2007.

[58] Department of Finance and Deregulation, op. cit., paragraph 3.22.

[59] The publication of the PCIG guidelines in this way fulfilled the requirement of paragraph 3.24 of the *Commonwealth Grant Guidelines*, which requires agencies to make guidelines publicly available, including through the agency website.

2.8 The 2010 guidelines provided information on the context of the program, explained the operation of the two funding rounds, and summarised both DoHA's and the Minister's role in assessing and awarding grants. The guidelines specified that grants would be available through a competitive process, and set out the two selection criteria, namely:

- Selection Criterion 1: the ability to meet the relevant program objectives (see Table 1.1 in Chapter 1); and
- Selection Criterion 2: the efficient and effective use of funds.[60]

2.9 The guidelines did not indicate the relative weighting given to the selection criteria, as they had not been finalised upon its publication.[61] These weightings were subsequently contained in the PCIG assessment plan[62], which was adopted by DoHA on 20 August 2010, the day that applications for the 2010 round closed. Under that plan, Selection Criterion 1 was weighted at 90 per cent of the total available assessment score, with Selection Criterion 2 weighted at 10 per cent. The individual program objectives making up Selection Criterion 1 were also weighted, as well as the various elements making up Selection Criterion 2, as shown in Table 2.1.

[60] Table 2.1 lists the criteria and weightings that DoHA applies to determine the extent to which applications propose the efficient and effective use of funds.

[61] The transparency, consistency and defensibility of the assessment process will be supported by the grant program guidelines making clear the extent, if any, to which nominated assessment criteria will be more heavily weighted (or favoured) in determining an application's overall assessment and, where relevant, relative ranking in comparison to competing applications: ANAO Better Practice Guide– *Implementing Better Practice Grants Administration*, June 2010, p. 66.

[62] The assessment plan was an internal DoHA document, and not available to applicants.

Table 2.1

Weightings applying to PCIG selection criteria

Stream	Selection Criterion (SC)	Weighting (%)
A	SC 1: potential to upgrade or enhance existing facilities (objective 1)	64
	SC 1: potential to provide access to new services (objective 2)	26
	SC 2: efficient and effective use of funds	10
B	SC 1: potential to upgrade or enhance existing facilities (objective 1)	54
	SC 1: potential to provide access to new services (objective 2)	22
	SC 1: potential to strengthen team-based approaches to delivery of care (objective 3)	10
	SC 1: potential to provide extended hours of service (objective 4)	4
	SC 2: efficient and effective use of funds	10
C	SC 1: potential to upgrade or enhance existing facilities (objective 1)	49
	SC 1: potential to provide access to new services (objective 2)	20
	SC 1: potential to strengthen team-based approaches to delivery of care (objective 3)	9
	SC 1: potential to provide extended hours of service (objective 4)	4
	SC 1: potential to provide new or enhanced clinical training facilities (objective 5)	9
	SC 2: efficient and effective use of funds	10
All Streams (SC 2: efficient and effective use of funds)	Evidence that local area has current or future significant health needs, particularly where these are not currently met	5
	Geographical location of the proposed project, with regional / remote locations favoured	3
	Financial co-contributions	1
	Accreditation of the facility against relevant industry and/or clinical training standards, or progressing towards them	1

Source: DoHA, *Application Assessment Plan: Primary Care Infrastructure Grants Under the GP Super Clinics Program–Individual Assessment Sheet*, 20 August 2010.

2.10 According to the assessment plan, the relative weightings 'reflect the importance of the assessment criteria', with DoHA further clarifying that:

> The weightings were progressively refined to reflect the emphasis within the policy context of the Program, as identified in the Health and Hospital Reform Commission Report, the National Primary Care Strategy and the NPP (and in the Government's announcements), namely that infrastructure funding was being provided to increase floor space available for the delivery of multidisciplinary primary healthcare services. The other criteria (extended

hours, clinical training etc) were adjuncts to the central policy imperative and the weightings reflect this appropriately.

2.11 This clarification emphasises that the context of the program is to deliver multidisciplinary primary healthcare services at expanded premises but does not explain why objective 2 (the potential to provide access to new services) has such a low weighting within each of the three streams. objective 2 is weighted at 26, 22 and 20 per cent for streams A, B and C respectively, which is much less than objective 1 (to upgrade or enhance existing facilities) that is weighted at 64, 54 and 49 per cent respectively. For each stream, therefore, the selection criteria provide a much higher emphasis on upgrading existing facilities than providing new, presumably multidisciplinary, services.[63]

2.12 The clarification also characterises objectives 4 and 5 (relating to extended hours and clinical training respectively) as 'adjuncts to the central policy imperative and [that] the weightings reflect this appropriately'. These two objectives, along with objective 3, however, have a disproportionate influence on the level of funding potentially available. In the case of objective 5, this is the single additional necessary criteria to raise the maximum funding amount potentially available from $300 000 to $500 000 (66 per cent), notwithstanding its relatively low nine percentage point assessment weighting.

2.13 The ANAO considers that the criteria weightings do not reflect the program's emphasis on encouraging the delivery of multidisciplinary primary healthcare services, as they place on overly high emphasis on upgrading existing services in each stream, and on the 'adjunct' objectives 4 and 5 in accessing the higher funding streams, particularly Stream C. These relative criteria weightings impact on the potential value for money of the program, as discussed in Chapter 3.

2.14 The weightings for PCIG selection criteria remained unchanged in the 2011 round, but again were not disclosed in the 2011 guidelines.[64] While there is no requirement to inform applicants of the weightings to be given to criteria,

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[63] Even if objective 3—to strengthen team based approaches to delivery of care—is added to objective 2 to encompass multidisciplinary care, the total weightings (of 32 and 29 per cent for streams B and C) are much lower than those for objective 1 relating to existing services (of 54 and 49 per cent respectively).

[64] The 2010 guidelines were revised in March 2011 in preparation for the 2011 funding round. The changes were relatively minor, focusing on clarifying the interpretation of some matters such as relocation of existing facilities, premise tenure requirements and funding for equipment costs. The Department of Finance and Deregulation was consulted on the changes and concurred with DoHA's assessment that they did not increase program risk. The Minister was formally briefed on the revised guidelines and approved them in early April 2011.

it does help applicants shape their submissions if they are aware that selective weightings will be applied.[65]

2.15 As mentioned in Chapter 1, the guidelines specified that, in addition to construction and fit-out costs (capital works costs)[66], PCIG funding could be used for the supply and installation costs of information and communications technology (ICT) hardware and software, and for the supply and installation of essential medical equipment (equipment costs). However, the 2010 guidelines did not provide any guidance on whether a project that mainly or exclusively consisted of funding equipment costs was eligible for PCIG funding. This was addressed in the 2011 guidelines by specifying that PCIG funding could not be applied to projects 'entirely or predominantly' consisting of seeking funding for ICT/medical equipment.

Planning the implementation of the PCIG program

2.16 Program-level risks were addressed through the development of a PCIG risk management plan, adopted as part of the funding plan approval.[67] This plan included a list of anticipated risks, identified their source and proposed mitigation treatments.

2.17 One of the sources of risk identified within the overall risk to implementation timing was 'breakdowns in funding negotiations with preferred recipients'. However, the experience in the 2010 round was that a more common occurrence was delays in obtaining confirmation on (often complex) issues such as tenure and recipients' legal structures, rather than 'breakdowns' in negotiations. Given DoHA's experience in comparable grant programs[68], the potential for such delays should have been better recognised

[65] The transparency, consistency and defensibility of the assessment process will be supported by the grant program guidelines making clear the extent, if any, to which nominated assessment criteria will be more heavily weighted (or favoured) in determining an application's overall assessment and, where relevant, relative ranking in comparison to competing applications: ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, p. 66.

[66] Design and professional fees, and development application fees related to the construction and fit-out, were likewise permitted to be funded by the PCIG grant.

[67] Project specific risk was required to be addressed in PCIG applications and, for projects that received grants, recipients were required to develop a specific risk management plan to be approved by DoHA.

[68] While DoHA advised it had consulted with many other capital works areas of the department in planning the implementation of the PCIG program, there were many instances beyond risk management that indicated the planning could have more fully incorporated lessons from these other areas, particularly for the 2010 round, as discussed in Chapters 3 and 4.

(and hence mitigated) through a more thorough 2010 PCIG risk management plan and process.

2.18 The risk management plan also does not explicitly deal with the risks of the project maintaining its 'designated use' over the relevant two to five year period after construction. This designated use period requires that the premises continue to be used for the provision of health services and the use of the infrastructure works funded by the grant continues to be in accordance with the project's aim as detailed in the grant funding agreement. Essentially, the commitments made by the recipient in terms of new services, team–based approaches to care, and training[69] must be continuously delivered over the designated use period. Recipient workforce issues, correctly identified as a risk in the risk management plan, are certainly an element of this risk, but only one part, as there may be economic or other reasons why a recipient might not fully discharge their commitments in respect to designated use.[70]

2.19 In terms of project evaluation, the funding plan stated that DoHA staff would evaluate funded projects on completion of the construction phase, and the evaluation would be provided to DoHA's Program Funding and Procurement Service. In the course of the audit, DoHA advised that elements of an evaluation framework were introduced through: the program guidelines; key performance indicators; obligations contained in funding agreements; and various reporting templates and tools created by DoHA. The funding plan also foreshadowed that there would be a national evaluation of the GP Super Clinics program, to which the PCIG belonged. However, the funding plan brief did not detail the nature or timing of such an evaluation.

Conclusion

2.20 DoHA's program design and planning for the PCIG program was undertaken within very tight timeframes, responding to the Government's requirement for an early opening for applications. Program guidelines were approved through the necessary processes, including ERC, although the tight timeframe may have contributed to the omission in the guidelines of the weightings applied to the grant selection criteria.

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[69] These commitments are only applicable to projects funded under streams B and/or C.

[70] DoHA assessed the risk of recipients ceasing to provide any services due to the funded facility closing down as low.

2.21 Risk management was addressed as part of program planning, although some significant risks were not identified in the management plan. Identification and mitigation of project-specific risks were also incorporated into the assessment and implementation stages of individual projects.

2.22 Program evaluation was addressed in the design and planning process, although specific details as to timing or processes were not documented, and remain unresolved, as discussed in Chapter 6.

Attracting grant applications

2010 round

2.23 Once DoHA had obtained the necessary government and internal departmental approvals for the Invitation to Apply package, an eight week application period opened to the public (from 25 June 2010 to 20 August 2010). The program targeted GPs, primary care and community health services and Aboriginal Medical Services that were currently providing GP services at existing facilities.

2.24 DoHA adopted a variety of measures to attract and promote the program to potential applicants, including:

- placing newspaper advertisements in national, state and regional newspapers from 3 July 2010;
- placing promotional material on several DoHA websites and on the Australian Government website—GrantsLINK[71,72];
- using a contact list that was primarily based on its administration of the GP Super Clinics program, of over 30 key non-government primary health stakeholders, such as primary care peak bodies, as well as an extensive 'interested persons' contact list. These bodies and persons were emailed by DoHA on 25 June 2010 to alert them of the opening of the PCIG program.

[71] DoHA, *GP Super Clinics: Primary Care Infrastructure Grants*, Canberra, 2011, available from <www.health.gov.au/internet/main/publishing.nsf/Content/pacd-gpsuperclinics-pcigg2010> [accessed 5 September 2011]; Department of Regional Australia, Regional Development and Local Government, *GP Super Clinics and Primary Care Infrastructure Grants*, November 2010, available from <www.grantslink.gov.au/info.aspx?ResourceId=1854> [accessed 24 November 2011].

[72] The publication of the material on DoHA's website fulfilled the requirement of paragraph 3.24 of the *Commonwealth Grant Guidelines*, which requires agencies to make grant guidelines publicly available.

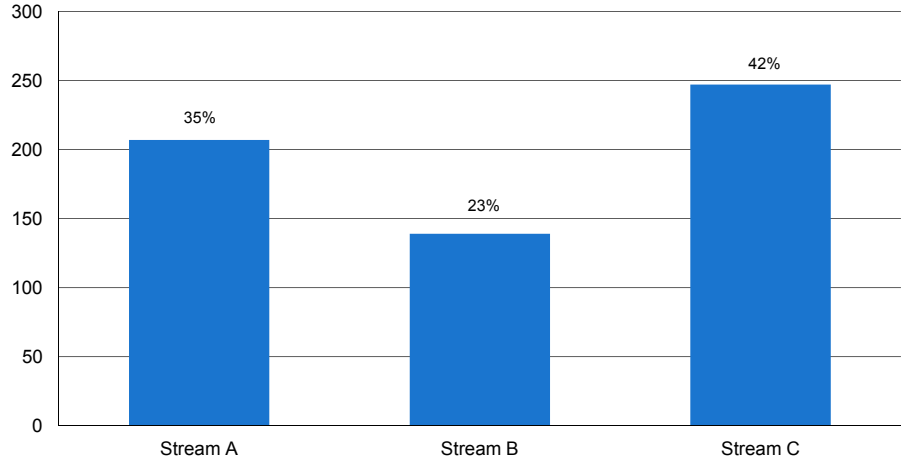
2.25 Stakeholder groups advised the ANAO that they informed their members of the opening of the program via email and electronic newsletters.[73] Recipients interviewed as part the ANAO's examination of 14 projects funded in 2010 advised that in their opinion DoHA had promoted the program relatively effectively.

2.26 DoHA reported that '1738 interested parties registered and downloaded documentation, from the internet'.[74] A total of 593 applications were received[75], applying for some $184 million in grant funding, which was almost three times the value of funds available in the first round.

2.27 Figure 2.1 identifies the number and spread of applications across the three funding streams for the 2010 PCIG round. It shows that Stream C (for grant amounts up to $500 000) received the largest share of applications, and Stream B (for grants up to $300 000) the fewest.

Figure 2.1

Applications received for the 2010 PCIG round



Source: ANAO analysis of DoHA, *Application Assessment Reports: Primary Care Infrastructure Grants*, November 2010.

[73] The ANAO was provided with feedback from DoHA stakeholders during interviews conducted in October 2010.

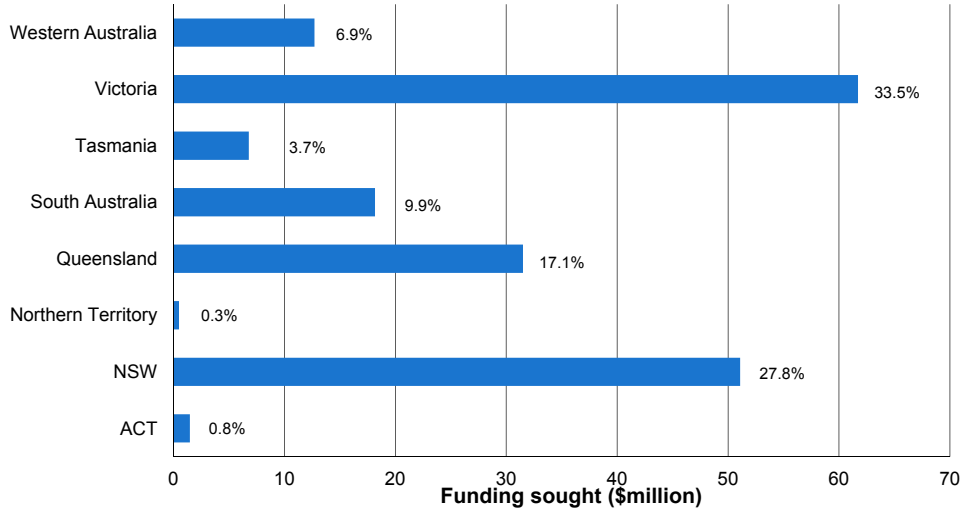
[74] DoHA, *Application Assessment Report A*, 19 November 2010, p. 1. DoHA subsequently advised the ANAO that this figure excludes any multiple registrations from the same entity.

[75] By way of comparison with this figure, as at 30 June 2010, there were around 7150 general practices in Australia.

2.28 As measured by total funding sought, there was also a reasonable spread of 2010 round applications received across all states and territories and from regional areas, as presented in Figure 2.2 and Figure 2.3. A notable feature is the relatively high share of applications from Victoria (Victoria has approximately 24 per cent of general practices in Australia, but applications from Victoria represented 34 per cent of the total applications). Only one application was received from the Northern Territory.[76] There were seventeen applications from Aboriginal Medical Services.

Figure 2.2

Applications received by state and territory, by funding sought for the 2010 PCIG round

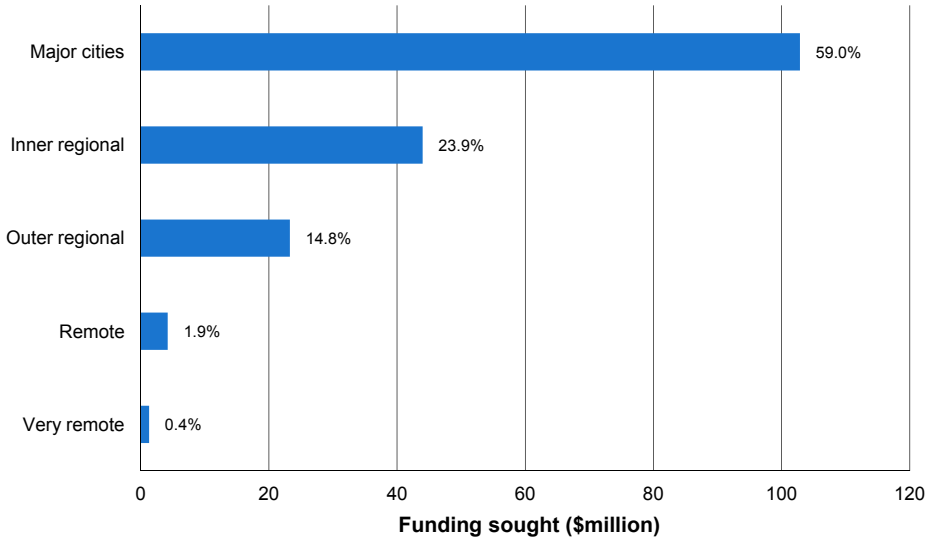


Source: ANAO analysis of DoHA, *Application Assessment Reports: Primary Care Infrastructure Grants*, November 2010.

[76] There are around 120 general practices in the Northern Territory. Primary Health Care Research & Information Service, *Fast Facts: GP and general practice numbers by state,* 2009-10, available from <http://www.phcris.org.au/fastfacts/fact.php?id=8292>.

Figure 2.3

Applications received by Australian Standard Geographical Classifications—Remoteness Areas, by funding sought for the 2010 PCIG round



Source: ANAO analysis of DoHA, *Application Assessment Reports: Primary Care Infrastructure Grants*, November 2010.

2011 round

2.29 DoHA followed a similar process in publicising the opening of the 2011 PCIG funding round, although around 30 per cent fewer applications were received (418 in 2011 compared to 593 in 2010). DoHA had not expected this decline, but rather anticipated that the number of applications would increase.[77] The amount sought was approximately $131 million, or around two and a half times the amount available.

2.30 The spread of applications across the three streams was similar to that in 2010, as was the spread across regional areas. There was, however, an increased share of applications from NSW and a reduced share from Victoria, with the levels more closely approximating the proportion of general practices located in these states. Applications from the Northern Territory increased slightly to four. There was also an increase to 27 in the number of applications received from Aboriginal Medical Services.

[77] Minute to the Minister—*Primary Care Infrastructure Grant Guidelines 2011*, 1 April 2011.

Conclusion

2.31 DoHA effectively promoted the PCIG program. The spread of activities used by DoHA to attract applications was generally well targeted to reach the intended potential grant recipient population, although there was a low level of applications from GP service providers in the Northern Territory.

3. Assessing Grant Applications

This chapter examines DoHA's assessment processes for PCIG applications in both the 2010 and 2011 rounds.

Introduction

3.1 For agencies to effectively, efficiently and equitably assess grant applications it is important that the processes adopted are robust and transparent. Documenting and implementing assessment processes that are consistent with the parameters set out in program guidelines and application assessment plans will also assist decision makers to demonstrate that they have satisfied their obligations under the financial management framework and the *Commonwealth Grant Guidelines*.[78]

3.2 DoHA's planned methodology for assessing applications in the 2010 PCIG round was outlined in the *2010 PCIG Assessment Plan*.[79] The key steps in DoHA's planned approach were:

- conducting an initial compliance check of applications against mandatory information required to be submitted by applicants, and documenting the decision on a Conformance/Compliance Checklist;
- convening application assessment panels, to be chaired by Directors of the GP Super Clinics Branch, with oversight of the process through an Assessment Moderator[80];
- two assessment panel members separately assessing each compliant application against the selection criteria, and seeking to reach a consensus on assessment comments and numerical scoring[81];
- supporting assessment panels in their examination of applications through an Internal Funding and Probity Advisor, secretariat staff and,

[78] ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, Canberra, p. 70; and Department of Finance and Deregulation, op. cit., p. 6.

[79] There were some changes made to the 2011 assessment procedures, which are noted in the text of this chapter, however the key steps remained broadly the same in both rounds.

[80] DoHA, *Primary Care Infrastructure Grants: Applications Assessment Plan*, pp. 2–3.

[81] If consensus could not be reached, input would be sought from a Panel Chair or the Moderator if required.

as required, financial and/or construction experts, such as an Independent Construction Advisor[82];

- recording assessment reasons, decisions and overall numerical scores on a Comparative Assessment Summary form and an Individual Assessment Sheet[83]; and
- producing a merit-based listing for each funding stream, based on ranking all projects against each other within each stream.

3.3 To form an opinion about DoHA's performance in assessing PCIG program applications, the ANAO examined the extent to which:

- the compliance status was determined accurately and consistently;
- the assessment comments and numerical scoring applied to applications were consistent and justified;
- the assessments adequately considered value for money;
- key decisions in the assessment process were documented;
- quality assurance reviews improved the consistency of assessment outcomes;
- the composition of the assessment panels was appropriate, and assessment staff were given appropriate training and support; and
- the risk management of double dipping of grant funds, by applicants, was effective.

3.4 The ANAO's analysis of DoHA's performance in assessing applications for the 2010 and 2011 PCIG rounds was based on: an examination of information provided in DoHA electronic and hard copy documents; interviews with key DoHA staff with the responsibility for managing the PCIG program and the two assessments rounds; and information published on DoHA's website.

3.5 The ANAO also reviewed a selection of completed assessments from both the 2010 and 2011 PCIG rounds. A non-statistical sample of 108 applications from the 2010 round (representing 18 per cent of all applications) and 105 applications from the 2011 round (representing 25 per

[82] DoHA, *Primary Care Infrastructure Grants: Applications Assessment Plan*, pp. 3 and 11.

[83] ibid, p. 4.

cent of all applications) across the three funding streams was chosen based on a stratification of four assessment outcomes. The stratification used by the ANAO and a breakdown of the sample devised to examine 2010 and 2011 PCIG applications is presented in Appendix 2.

3.6 Consistent with the audit criteria outlined in Chapter 1, this chapter also examines the changes that DoHA implemented to its assessment of PCIG applications in the 2011 funding round as part of lessons learned from the 2010 round. Some lessons arose from an internal review of the 2010 PCIG applications and assessment process (the 2010 assessment review).[84]

Determining the compliance status of applications

3.7 Once applications have been received by an agency, determining the extent to which they comply with eligibility and other mandatory compliance criteria supports efficient program administration. Efficient practices are those through which 'non-compliant applications are clearly identified as ineligible and excluded from further consideration'.[85]

2010 round

3.8 The criteria used by DoHA to determine the compliance of applications were set out in a 'Conformance/Compliance Checklist'. For an applicant to be deemed compliant, 'mandatory requirements' had to be met, such as providing details in response to each program objective that was relevant to their chosen funding stream.[86] If any of these mandatory requirements were not met, the application was required to be deemed non-compliant. [87]

3.9 Problems regarding the accuracy and consistency of the 2010 PCIG compliance process were noted in the 2010 assessment review, with staff feedback including comments that 'the [compliance] process was difficult and not enough time was allowed to undertake quality checks'.

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[84] Staff feedback, including specific comments by individual staff, was recorded in meeting notes. However, these notes were of a relatively informal nature and were not subject to a checking process that would have allowed them to be adopted as a formal record of the relevant meeting.

[85] ANAO, op. cit., p. 72.

[86] DoHA, *Primary Care Infrastructure Grants 2010: Compliance Checking*, p. 1.

[87] DoHA identified 18 applications from the 2010 PCIG round (five Stream A, eight Stream B and five Stream C applications) that were non-compliant. DoHA, *Application Assessment Reports: Stream A, B and C*, November 2010.

3.10 In the 2010 PCIG round, some applications were assessed as compliant, but were subsequently assessed as ineligible for consideration of a grant as they had requested funding for purposes not permitted under the program guidelines. DoHA also identified that 'a number of applications "got through" (that were initially assessed as compliant) despite not being capital works projects as defined by the guidelines'.

3.11 The ANAO's analysis of compliance checks for 2010 PCIG applications revealed other inconsistent practices to determine eligibility. Twelve examples were identified, where:

- three applications were correctly assessed as non-compliant by staff but nonetheless progressed to a full assessment; and
- nine applications were incorrectly determined to be compliant, and therefore progressed to full or part assessment.

3.12 The ANAO also identified instances where assessments were not appropriately signed off and records of decisions made were documented on post-it-notes rather than on formal hard-copy memos or minutes.

3.13 Allowing non-compliant applications to progress to full or partial assessment against the selection criteria unnecessarily used administrative resources and risked these applications being inappropriately selected.[88] There was no evidence, however, that any 2010 PCIG applications had been incorrectly assessed as non-compliant and consequently excluded from further assessment.

2011 round

3.14 DoHA advised that after receiving applications for the 2011 PCIG round it became evident that the compliance checking process would need to be more thorough than that applied in 2010. DoHA was aware that staff had applied different interpretations to matters such as whether applicants held appropriate tenure, and responded by revising the compliance checking processes and establishing a Compliance Committee.

3.15 A revised compliance checking process was introduced that required assessment staff to address threshold eligibility issues. This process included

[88] ANAO, op. cit., p. 72.

more detailed guidance for staff to assess key questions of eligibility than was the case in 2010.

3.16 The PCIG Compliance Committee established in 2011 included the three panel chairs[89] and the Assessment Moderator.[90] The committee met between 20 July 2011 and 11 August 2011 with the goal to undertake a detailed analysis of applications that were potentially non-compliant. When a decision was made, the four committee members were required to record and approve their decision.

3.17 The ANAO's analysis of a sample of 25 non-compliant 2011 PCIG applications (41 per cent of a total of 61 non-compliant applications) found that the decisions made by the Compliance Committee were clearly documented, consistent and justifiable.

3.18 DoHA records also show that non-compliant applicants from the 2011 PCIG round received written feedback indicating why their applications were deemed to be non-compliant. This is an improvement from the 2010 round, in which applicants were only informed of the reasons that their applications were unsuccessful if they requested direct feedback from DoHA, an option taken up by 51 applicants in the 2010 round.

3.19 Overall, DoHA undertook a more thorough, effective and well-documented approach to determining the compliance status of applications in the 2011 round compared to the 2010 round.

Assessing applications

3.20 The *Commonwealth Grant Guidelines* establish the policy framework within which agencies determine their own specific grants administration practices.[91] The guidelines include mandatory requirements as well as matters

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89 For the 2010 and 2011 assessment rounds, the Assessment Panel Chairs were responsible for chairing meetings of their panel, ensuring that the assessment process complied with the Applications Assessment Plan, ensuring that the panel maintained the highest standards of probity and official conduct, and initiating all required contact with applicants during the assessment process: DoHA, *Primary Care Infrastructure Grants: 2010 and 2011 Application Assessment Plans*, p. 7.

90 For the 2010 and 2011 assessment rounds, the Assessment Moderator was responsible for assisting Panel Chairs in the resolution of any substantial circumstance or issue and to resolve discrepancies in scores (of two or more points), consulting with the Funding and Probity Advisor on relevant matters and providing final confirmation of an application's non-compliance, where required: DoHA, *Primary Care Infrastructure Grants: 2010 and 2011 Application Assessment Plans*, p. 7.

91 Department of Finance and Deregulation, op. cit., p. 2.

of sound practice with which the government considers agencies should comply. The sound practices set out in the guidelines inform agencies' implementation of seven key principles of grants administration, which include the principles of 'probity and transparency' and 'achieving value for public money'.[92] These principles are of particular relevance for the assessment and selection of proposals.

3.21 In this context, the ANAO examined whether the numerical assessment scoring and assessment comments applied to applications were consistent and justified.

2010 round

3.22 The ANAO's analysis of a sample of application assessments found that there was a relatively high rate of inconsistent assessment practices by DoHA (29 inconsistencies out of 108 assessments). The examples relate to both assessment scores and the comments recorded on DoHA assessment sheets to justify these scores. Table 3.1 identifies evidence of inconsistent scoring practices.

Table 3.1

Examples of inconsistent 2010 PCIG assessment scores

Area of assessment	Examples of inconsistent scores
Evidence of tenure – land/building ownership or permission to build	An applicant provided a full response to details of land/building ownership yet a low score of 1/5 was applied. Another applicant supplied the same information and received a score of 5/5.
Risk management	Applicants supplied little or no information in response to 'identifying key risks to the project' and received a full or high score, yet similar responses received lower scores.
Areas experiencing high population growth	An application provided statistics on projected high population growth, but was scored 0/1 rather than 1/1 as indicated in the scoring guide.
Taking pressure off local hospital departments	Applicants supplied information that their proposal may take pressure off the local emergency department' but was scored 0/1 rather than 1/1 as indicated in the scoring guide.

[92] Adherence or otherwise to the above sound practices has a subsequent impact on the approval of spending proposals under Regulation 9 of the Financial Management and Accountability Regulations, as discussed later in this chapter regarding achieving value for money, and in Chapter 4.

Area of assessment	Examples of inconsistent scores
Providing extended hours of service (streams B and C only)	An applicant stated that they were already providing at least 10 hours of extended service, but was scored 1/2 (the scoring guide indicates this should be scored 2/2).
Applicants accessing other funding sources	An applicant did not demonstrate 'the existence or otherwise of other funding sources available for a capital works project' yet a full score of 1/1 was applied. Conversely scores of 0/1 were applied when information provided by applicants demonstrated their access to other funds.
Describing current services and/or clinical training arrangements	An applicant provided comprehensive information but was rated as 'providing several/significant deficiencies' and received a score of 2/3. The assessor comments do not make any negative comment on the information provided.
General information about the project	Applicants did not provide full information—some were missing the required details about parking, zoning arrangements or a timeframe for the completion of the project—yet a score of 5/5 was applied.
Photographs of existing premises	An applicant scored 1/2, rather than the expected 2/2, when detailed photos of existing premises were provided.

Source: ANAO analysis of 108 application assessments from the 2010 PCIG round.

3.23 Notably, staff feedback received as part of the 2010 assessment review included a statement that one 'difficulty noted during the assessment process were [the] interpretation of the weightings … which led to inconsistencies occurring, particularly around tenure'.

3.24 DoHA advised that the Moderator of the assessment process conducted meetings with Session Chairs and the Assessment Coordinator to discuss such issues as they arose. Based on the decisions made at these meetings, assessors were then advised about how responses from applicants on relevant issues should be handled and scored. DoHA further advised that where there was a need to ensure ongoing awareness, a board displaying the decision was placed in the assessment room. DoHA assessment staff advised that the awareness raising activities assisted in clarifying their understanding of how to interpret the scoring of applications.

3.25 The inconsistent scoring of applications resulted in the inaccurate ranking of some projects within the merit list, which had the potential to affect the program outcomes. A comparison of the 2010 PCIG assessment scores where individual assessment criteria were found to be assessed inconsistently

shows that revised scores would have altered the standing of some applications on the merit list. In two cases this would have moved applications from above to below the cut-off score for shortlisted applications.[93] In two other cases, revised scores would have resulted in the relevant applications moving to the cut-off score for shortlisting, with one application shifting up to the cut-off score and the other shifting down to the cut-off score.

3.26 While it is unrealistic to expect absolute consistency and accuracy, a more thorough quality assurance review (QAR) would have mitigated the risk and helped reduce the level of inconsistency and error. The use of QAR processes is discussed later.

2011 round

3.27 The ANAO's analysis of sample assessments from the 2011 round shows that, while there were some examples of inconsistent approaches, there was a marked improvement compared to the 2010 round. The ANAO's analysis of a sample of 2011 application assessments found 20 inconsistencies out of 105 assessments. Table 3.2 identifies the ANAO's major findings in relation to inconsistent scores or comments for the 2011 PCIG round.

Table 3.2

Inconsistent scores and comments identified in DoHA's assessment of 2011 PCIG applications

Area of assessment	Findings identified by the ANAO relating to comments and scores
Details of the capital works project	An applicant did not provide information about traffic flow and zoning arrangements, yet the assessment comments state that 'this should not present any issues given that the work is an extension of a present building' and a score of 5/5 was applied.
Capital works budget	A score of 3/5 was applied and the comment made that 'the application would have been strengthened by the provision of more detailed information regarding the likely costs of the capital works i.e. quotes' However, applicants were not required to supply quotes in the application form, but to complete the capital works budget template, which the applicant did.
	A score of 5/5 was applied, yet assessment comments state 'the budget contained an inconsistency of $89 100 in the building works section. This was not taken into account in the assessment process'.

[93] However, given a significant number of shortlisted projects were not ultimately awarded grants, projects that just missed the cut-off score were generally approached by DoHA to enter into funding agreements negotiations.

Area of assessment	Findings identified by the ANAO relating to comments and scores
Evidence of tenure – land/building ownership or permission to build	Two applicants provided a letter of consent from a building owner (which qualifies for a score of 5/5) yet a score of 4/5 was given.
	An applicant provided a statement (but no letter of support) that permission had been given and received a score of 5/5, rather than 1/5 or 2/5 as indicated in the scoring guide.
Photographs	An assessment states that 'the applicant only provided photographs of the existing premises'. While the score applied was 1/2 (which correctly reflected the fact that the applicant did not provide photos that included signage of the practice), applicants were required to provide photos of only the 'existing premises'.
Current and proposed hours	Two applications were scored 2/2, yet they were intending to extend their hours by less than 10 hours (which is the pre-requisite to receive a score of 1/2).
	One applicant was scored 2/2 (for currently providing more than ten extended hours in the defined time period) yet the applicant did not clearly indicate how services are provided under its '24 hour access' on weekends.
Risk assessments	An applicant provided comprehensive information about risks to their proposal yet scored 0/5 (similar responses scored 5/5).

Source: ANAO analysis of DoHA's assessment of 105 PCIG applications.

3.28 While inconsistencies were less frequent than in the 2010 round, the ANAO sample identified four examples from the 2011 round where more accurate scoring would have affected the application's shortlisting status. These included three instances where this would have moved applications from above to below the cut-off score for shortlisted applications, with the other application moving to above the cut-off score.

3.29 DoHA advised that as it had 'received around a thousand applications over the two rounds with varying budgets ranging between $30 000 and $500 000, the department considered it managed the assessment process within available resources'.

Value for money considerations in the assessment process

3.30 As a competitive grants program, the PCIG is subject to the *Commonwealth Grant Guidelines* (CGGs).[94] The CGGs state that the fundamental objective of grants administration is to 'establish the means to efficiently, effectively and ethically administer Australian Government funding to approved recipients in accordance with government policy outcomes'.[95] This objective is supported through the Australian Government's financial management framework, which includes a requirement to make proper use of Commonwealth resources[96], and the seven key principles for grants administration set out in the CGGs, which include the principle of achieving value with public money.[97]

3.31 Where grants are provided to produce outcomes that are reasonably similar, or at least readily comparable between the funded projects, value for money can be relatively easy to assess. In the case of the PCIG program, however, there was significant diversity in the type, scale and location of infrastructure and supporting medical and ICT equipment, as well as the new services proposed, and clinical training placement and facilities scenarios.[98] This posed challenges for DoHA in its effort to incorporate value for money considerations into the assessment of PCIG applications.[99]

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94 Department of Finance and Deregulation, op. cit., The Guidelines 'establish the policy framework and articulate the Government's expectations for all departments and agencies … subject to the *Financial Management and Accountability Act 1997* … and their officials, when performing duties in relation to grants administration', paragraph 3.24.

95 ibid., p. 3.

96 Under the Commonwealth's financial framework, the overall test for the 'proper use' of public money is the 'efficient, effective, economical and ethical use of Commonwealth resources that is not inconsistent with the policies of the Commonwealth', as specified in section 44 of the FMA Act and FMA Regulation 9. Often, this is referred to as a 'value for money' test. The CGGs provide that the objective of a grants appraisal process is to 'select projects/activities that best represent value for public money in the context of the objectives and outcomes of the granting activity.' Department of Finance and Deregulation, op. cit., p. 30.

97 ibid., p. 30. The CGGs provide that the grants administration function itself should provide value for public money, as should the selection of grant recipients to deliver grant outcomes.

98 The department advised that the responsible branch consulted with DoHA's specialist Program Funding and Procurement Service in relation to 'achieving value with public money' and took the view that assessments not only need to take into account the cost of building, but the type and model of proposed service delivery and how this will deliver improved health services for the community.

99 The 2010 and 2011 PCIG Assessment Plans provided that the assessment panels would consider whether applications represented value for money against (i) the potential of the project to achieve the relevant program objectives and (ii) the efficient and effective use of funds.

3.32 Beyond these contextual difficulties, however, three key limitations in the design and implementation of the assessment process inhibited DoHA's capacity to adequately assess value for money. These limitations related to the:

- relative weighting of the selection criteria across the program outcomes;
- adequacy of information received from applications for the purpose of assessing value for money, and the use made of that information; and
- assessment of efficiency and effectiveness.

Relative weighting of selection criteria

3.33 The PCIG program had three outcomes (or changes the program was expected to effect in the community), which were set out in the program guidelines. The three outcomes, which are reproduced in Table 3.3, related to the development of additional infrastructure, the provision of a broader range of services, and increased support for the future primary care workforce.

Table 3.3

PCIG program's three stated outcomes

Outcome	Outcome objective
1	Additional primary care infrastructure in existing general practices, primary health and community care services, and Aboriginal Medical Services.
2	Broader range of primary healthcare services for communities and increased access to services for individuals.
3	Increased support for the future primary care workforce through: the provision of additional clinical training placements; and new or enhanced clinical training facilities.

Source: DoHA, PCIG Program Guidelines, 2010 and 2011.

3.34 The selection criteria used by DoHA to assess applications did not give equal weight to the achievement of the three outcomes. A significant weighting of up to 64 per cent was given to factors which would contribute to the achievement of Outcome 1, which had the effect of focusing the assessment process on the delivery of physical infrastructure. In contrast, factors which would contribute to the achievement of Outcomes 2 and 3 were given a combined weighting of as low as 26 per cent, which had the effect of lessening the focus of the assessment process on the potential for projects to deliver enhanced services and training.

3.35 In the course of the audit, DoHA advised:

> The weightings were progressively refined to reflect the emphasis within the policy context of the Program, as identified in the Health and Hospital Reform Commission Report, the National Primary Care Strategy and the NPP (and in the Government's announcements), namely that infrastructure funding was being provided to increase floor space available for the delivery of multidisciplinary primary healthcare services. The other criteria (extended hours, clinical training etc) were adjuncts to the central policy imperative and the weightings reflect this appropriately.

3.36 Notwithstanding this advice, there was no indication in the program guidelines, or other PCIG documentation, that the three outcomes were not of equal value or should be considered in a differentiated way by applicants.

3.37 Furthermore, the program guidelines did not include any information about the relative weighting to be given to the criteria by the department, as these weightings were only finalised by DoHA on the day that applications for the 2010 round closed, some two months after the 2010 guidelines were published. While there is no requirement to inform applicants of the weightings to be given to criteria, it does help applicants shape their submissions if they are aware that selective weightings will be applied.[100]

Insufficient collection and use of relevant information

3.38 The second limitation in DoHA's consideration of value for money when assessing PCIG applications was that it did not collect certain relevant information and made insufficient use of the information it did collect.

Information not collected

3.39 Applicants were required to provide details of the proposal, project budget, and the facility's intended uses. While this information was necessary for the purposes of assessment, it did not provide a ready basis for comparing competing projects. There would have been merit in DoHA requiring additional information to support comparative assessment; such as information regarding the cost per square metre of the proposed works.[101]

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[100] The transparency, consistency and defensibility of the assessment process will be supported by the grant program guidelines making clear the extent, if any, to which nominated assessment criteria will be more heavily weighted (or favoured) in determining an application's overall assessment and, where relevant, relative ranking in comparison to competing applications: ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, p. 66.

[101] While building costs vary from region to region, it would have been possible for DoHA to take these differences into account in the assessment process, including by adjusting for the relative cost of building in metropolitan and regional areas.

3.40 However, DoHA advised the ANAO that it had received advice from the Independent Construction Advisor[102] on average building costs per square metre in various location classifications and different types of construction, but considered that the significant ranges of these averages, together with the number of variables relating to each project, limited their utility in assisting assessments of value for money.

Making insufficient use of information collected

3.41 While DoHA collected a range of relevant and potentially useful information on project budgets, it did not make good use of that information to assess value for money. The department's guidance documentation to PCIG assessors for scoring applications indicated they should focus on the level of detail provided by applicants in their documentation rather than making use of that information to form a view on the efficiency and effectiveness of projects.

3.42 By way of illustration, DoHA sought the following information with respect to the capital works: the nature of the project; the physical location of the project; timeframe from commencement to completion; existing and anticipated changes to local government zoning arrangements; and traffic flow and parking requirements. In assessing the information provided by applicants concerning these matters, the guidance documentation focused on the level of detail provided in applications, as shown in Table 3.4. In summary, a high score of five was provided to a project if an application contained 'comprehensive details', while a zero score was provided if an application contained 'no details'.

[102] The Independent Construction Advisor could be used to provide advice on an assessment of value for money of construction, where applicable.

Table 3.4

DoHA's guidance provided to PCIG assessors to score applicants' information provided on the capital works

Score	Characteristics of the applicant's response
5	Provides comprehensive details on all of the identified elements
4	Provides a good level of detail on all of the identified elements
3	Provides comprehensive details on the majority of the identified elements
2	Provides a good level of detail on the majority of the identified elements
1	Provides details on at least some of the identified elements
0	Provides no details on any of the identified elements

Source: DoHA, *Application Assessment Plan: Primary Care Infrastructure Grants Under the GP Super Clinics Program–Individual Assessment Sheet*, 20 August 2010.

3.43 In the case of the capital works budget, applicants were required to provide costings for a range of matters[103], but the assessment guidance again focused on compliance, in this case the extent to which the capital works budget contained 'deficiencies'[104] (as shown in Table 3.5).

Table 3.5

DoHA's guidance provided to PCIG assessors to score applicants' information provided on the capital works budget

Score	Characteristics of the applicant's response
5	Provides a comprehensive capital works budget with very minor or no deficiencies
4	Provides a complete capital works budget with few deficiencies
3	Provides a capital works budget with several minor deficiencies
2	Provides a capital works budget with many/significant deficiencies
1	Provides a capital works budget with major deficiencies/almost no detail
0	Does not provide a capital works budget

Source: DoHA, *Application Assessment Plan: Primary Care Infrastructure Grants Under the GP Super Clinics Program–Individual Assessment Sheet*, 20 August 2010.

[103] An indicative list of activities was provided in the application form, noting that not all would be relevant to every project. These activities included: site preparation; planning/design/project management or other professional fees; construction (including building materials appropriate to the capital works project described); plumbing/gas fitting; electrical (including cabling, wiring for IT, refrigeration, lighting etc); IT (as part of a broader capital works project); supply/installation of telephone equipment); air conditioning/heating; fit-out/furniture; equipment (as part of a broader capital works project); application fees; signage; car park construction (as part of a broader capital works project); and contingency fees.

[104] DoHA did not define the meaning of information deficiency, or clarify the differences between the various categories of deficiency, for the benefit of PCIG assessors.

3.44 DoHA advised that training was developed for all assessment staff to enable them to understand and interpret the various levels of detail required in each question. This approach:

> recognised that the application was very specifically designed to encourage applicants to describe their projects in terms of the features and components that were considered to represent a quality project. The fewer desirable elements of a project that are described in a meaningful way, the less the project was likely to score.

3.45 Notwithstanding the efforts of assessors to consider the value or merit of a project in its specific context, the scoring systems devised for the project did not facilitate the full use of the information collected. Almost 90 per cent of the weighted score for each project focused on the level of detail provided by applicants, with only 10 per cent explicitly assigned to issues relating to efficiency and effectiveness.[105]

Assessing efficiency and effectiveness

3.46 While the assessment process purported to assign 10 per cent of the final weighting to issues relating to the 'efficient and effective use of funds'[106], the questions asked of applicants as a basis for assessing efficiency and effectiveness mainly related to aspects of effectiveness. The questions are reproduced in Table 3.6.

[105] Efficiency relates to maximising the ratio of outputs to inputs, and effectiveness is the extent to which intended outcomes are achieved.

[106] This weighting for the efficient and effective use of funds was in the context of selection criterion 2.

Table 3.6

Criteria for assessing the efficient and effective use of funds

Sub-criteria	Points allocated
Does the proposal indicate the community has poor access to health services?	Yes: 1 No: 0
Does the proposal indicate the community has poor health infrastructure and/or coordination?	Yes: 1 No: 0
Does the proposal indicate that a PCIG may help take pressure off the local emergency department?	Yes: 1 No: 0
Does the proposal indicate there are high levels of chronic disease and/or populations with high health needs in the community?	Yes: 1 No: 0
Does the proposal indicate that the area has high population growth or anticipated high population growth?	Yes: 1 No: 0
The geographic location of the applicant's existing facility.	3 = remote / very remote 2 = outer regional 1 = inner regional 0 = major city
The existence or otherwise of other funding sources available to the applicant for a capital works project.	Yes: 1 No: 0
Whether the facility is accredited against relevant industry and/or training standards or is progressing towards this.	Yes: 1 No: 0

Source: DoHA, *Application Assessment Plan: Primary Care Infrastructure Grants Under the GP Super Clinics Program–Individual Assessment Sheet*, 20 August 2010.

3.47 Many questions sought information from applicants on certain local health issues facing their practices, and assigned a score if those issues were identified in applications. However, the assessment process did not take the next step and seek to assess the extent to which applications addressed these issues, as a means of assessing the contribution which a project would make to achieving program outcomes.

3.48 Further, the questions only focused on one aspect of efficiency (whether other sources of funding were available) and assigned a one per cent rating[107] if other sources were identified by applicants. There would have been benefit in adopting a more balanced approach to weighting efficiency and effectiveness in the context of assessing value for money.[108]

[107] The one per cent rating is of the total project score of 100.

[108] DoHA advised that 'by requiring that a proposal meets program objectives such as providing access to increased workforce and improved services; strengthening coordinated care; extending hours of service; and building training opportunities, the Department is confirming that funds are being used efficiently and effectively'.

Alternative approach

3.49 The approach to assessing value for money adopted in the PCIG program contrasts to that adopted in a comparable DoHA grants program, the National Rural and Remote Health Infrastructure Program.[109] That program aims to improve access to health services by providing funding of up to $500 000 to rural and remote communities for the acquisition, construction, extension or refurbishment of essential health infrastructure, and the purchase of associated equipment.[110]

3.50 The National Rural and Remote Health Infrastructure Program, and its predecessor programs, have been running over several years. The guidelines for the current (sixth) funding round provide that 'demonstrated value for money' is one selection criteria, weighted at 20 per cent of the total available assessment score. Under this criterion, the guidelines indicate that assessors should consider the following questions:

- Is the project cost effective relative to the gains for the community?
- Do the outcomes of the project justify the funding investment?
- Have the budget items been fully costed and justified?

3.51 Adopting a similar approach, supported by appropriate guidance to assessors, would have provided a sounder basis for considering value for money in the assessment of PCIG applications.

Recommendation No.1

3.52 The ANAO recommends that DoHA more consistently applies better practices in assessing applications for infrastructure grant programs, with a focus on ensuring that achieving value with public money is explicitly considered and appropriately weighted in assessment processes.

DoHA Response

3.53 Agreed.

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[109] The National Rural and Remote Health Infrastructure Program is a competitive grant program that aims to improve access to health services by providing funding to rural and remote communities for essential health infrastructure and equipment. It also provides funding for strategic service planning for small rural private hospitals. See <http://www.health.gov.au/nrrhip>.

[110] It also provides funding for strategic service planning for small rural private hospitals.

Documenting key decisions in the assessment process

3.54 Achieving transparency of the decisions made in assessing grants for funding, and whether applications are likely to meet the objectives and outcomes of a grant program, is best supported by robustly documenting those decisions. Transparency and accountability will be heightened when:

> The decisions taken in relation to grant applications [are] documented in a manner that … demonstrates compliance with all relevant statutory and policy requirements, including by recording the information on which the decision was based and the substantive reasons for the decision.[111]

3.55 Robustly documenting decisions can also lead to a greater assurance that grants administration is conducted soundly and is well placed to withstand external scrutiny.[112]

2010 round

3.56 DoHA's *2010 PCIG Application Assessment Pack*, which formed part of the *2010 PCIG Assessment Plan*, states that the documentation of an audit trail was to occur:

> Throughout the assessment process, all conclusions and decisions, and the process and decisions leading thereto, will be recorded on the assessment documentation. All judgements of compliance, effectiveness, financial and other matters will be supported by relevant documentary evidence/written comments for each application.[113]

3.57 DoHA's *2010 PCIG Assessment Plan* states that the *Application Assessment Report* (to be provided to the Minister) was to include 'at a minimum, the completed Comparative Assessment Summary [Form]'.[114] The Comparative Assessment Summary Form contained a section in which each of the two assessors could record their individual initial assessment scores. However, DoHA subsequently decided not to use this form in the assessment process, and individual assessors' hand-written notes and scores, on which the final scores are based, were not retained. The only documentary record of

[111] ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, Canberra, pp. 45, 70.

[112] Department of Finance and Deregulation, op. cit., p. 14.

[113] DoHA, *Primary Care Infrastructure Grants–Application Assessment Plan: Application Assessment Pack*, August 2010, p. 19.

[114] DoHA, *Primary Care Infrastructure Grants Program: Application Assessment Plan*, August 2010, p. 12.

assessment deliberations retained is contained in a single Individual Assessment Sheet for each grant application.[115] This Assessment Sheet only recorded the final agreed score, reached after discussions between the two assessors. As the Comparative Assessment Summary Form was not used by assessment staff, there is no formal record of assessors and chairs agreeing on the assessment outcome, including that the correct score had been applied to each application (as the form contained a section for a signature and date by each assessor and Panel Chair).

3.58 After the assessment of applications had been completed, DoHA found arithmetic errors in some Individual Assessment Sheets. Feedback by a staff member to the 2010 assessment review process states that an 'impediment' to the assessment process was the failure to complete:

> the assessment sheets at the time of assessing … [which did not occur] until Stream C was being assessed, and errors were found to have been made in Stream A and B assessments that were not picked up until some time after the scores/recommendations had been sent to the Ministers Office.

3.59 DoHA subsequently advised the ANAO that 'arithmetic mistakes arose during the assessment process' and that the 'minor adding up mistakes' meant that the total scores ended up only being plus or minus a percentage point from the original handwritten scores'. However, DoHA was unable to clarify the number of errors made, or when it became aware of them.

3.60 From the ANAO's sample of 2010 PCIG applications, it was apparent that 10 per cent of individual assessment sheets (11 out of a sample of 108 applications) had been altered to reflect a revised, correct score. The ANAO cross-checked the revised, correct scores against the scores provided to the Minister and found that they were consistent. DoHA advised that 'no application was shortlisted that should not have been' and 'the paperwork [provided to the Minister] reflects the correct scoring'.[116]

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[115] DoHA advised that, given the number of applications received, the Comparative Assessment Summary Form was not used but it did use an Excel spreadsheet to ensure the accuracy of the calculations.

[116] This was also confirmed by ANAO analysis.

3.61 The ANAO identified a variety of further administrative errors which were not identified by DoHA's quality assurance review process for the 2010 round:

- the reallocation of an application to another grant stream (from Stream C to B), without documentation to provide a basis for why this occurred;
- assessment sheets that retained unedited, template[117] text. In some cases entire sections of template text were retained, which did not relate in any way to the information provided by applicants; and
- in one instance there was no record (electronic or on the paper file) indicating why an applicant scored below a minimum standard score for a criteria, to warrant a discontinued assessment.

2011 round

3.62 While the approach adopted by assessment panels in the 2011 round was similar to the 2010 round, one significant difference was the use of electronic assessment templates. A purpose-built grants management database (the Database of Infrastructure Grants Business Information (DIGBI)) was established in February 2011. The DIGBI is defined as a 'multi-user Microsoft Access database … to store information about applications and funding agreements for GP Super Clinics [grants] and PCIG'.[118]

3.63 The use of the DIGBI to record the assessment of applications facilitated a clearer recording of assessor comments and scores, compared to the 2010 approach of hand recording and subsequently typing the results. It also meant that the potential for errors in calculation were reduced, as the need for the manual calculation of scores was replaced with automated calculations.

[117] The electronic assessment template was the main tool used by assessors. It provided guidance on how to score an application against a selection criterion. It also had standard 'assessment comments' text that assessors could edit and then 'cut and paste' into individual project assessments to form the assessment comments for that project. Assessors could also write their own free text instead of, or to supplement, text derived from the assessment template.

[118] DoHA, Database of Infrastructure Grants Business Information: User's Manual, *Version 1*, February 2011.

Quality assurance review activities

3.64 An appropriately planned quality assurance review (QAR) process can contribute to high quality grants administration and a consistent approach to assessing applications.

2010 round

3.65 DoHA's *2010 PCIG Assessment Plan* did not specify how QAR activities would be undertaken as part of the compliance checking and assessment processes, stating only that the Chairs would 'work' with the Moderator to 'review all scores and provide consistency of the scoring underpinning recommendations'.[119]

3.66 DoHA advised that some QAR activities took place during the assessment of 2010 PCIG applications. However, these activities were not documented (including which or how many assessments underwent a QAR). Where individual assessments had been subject to, or may have been subject to, a QAR process the results were not always clear from comments on the project file. Examples of such comments are in Table 3.7

Table 3.7

Examples of quality assurance review comments where it is unclear if the QAR comments were finalised

2010 PCIG round
• One assessor had not scored objective 3 and objective 4. Scores for objectives 1E, 2A, 2B and 2C need to be reviewed. Criterion 2 was scored up from 3 to 6.
• Comments on two reviews stating 'review/mark up?' or 'Mark down – doesn't provide comprehensive detail on ALL identified elements?' and hand written scores, correcting incorrect typed scores or hand written notes stating 'QA'd'.
• Comments stating 'please note that in QA'ing' this assessment [it] doesn't appear compliant as it isn't an existing practice' (of which the application was subsequently deemed to be ineligible) accompanied by a file note (signed and dated, providing reasons for ineligibility).
• A comment stating 'application fails to meet 50% minimum score for objective 1 and lacks a sufficient level of detail across major criteria. Please review'. There is no evidence on file to indicate if a QAR took place.

Source: ANAO analysis of 108 PCIG 2010 round assessments.

3.67 DoHA also informed the ANAO that QAR activities included the Panel Chairs reviewing the scores and applying comments to assessments. Further, some staff suggested the process involved a QAR of assessments 'in-bulk'.

[119] DoHA, *Primary Care Infrastructure Grants: 2010 Application Assessment Plan*, p. 7.

However, as identified above, it is unclear if all assessments underwent a QAR, and the inconsistency in assessment comments and scoring identified by the ANAO indicates that the QAR process may not have been applied to all assessments, or that the QARs undertaken were not always fully effective in picking up such inconsistencies.

2011 round

3.68 In common with the *2010 PCIG Assessment Plan*, the *2011 PCIG Assessment Plan* stated that that the Panel Chairs would 'work' with the Moderator to ensure consistency of scoring across the entire process and also specified that the Moderator had responsibility for 'requesting quality assurance reviews of write-ups in the context of consistency and robust justifications'.[120]

3.69 DoHA staff interviews also suggested an intention that every assessment should undergo a QAR process by an assessment chair, prior to a final score being applied. However, there was no formal documentation of which applications underwent such a process.

3.70 As previously noted, the ANAO observed a generally lower level of inconsistency in the 2011 round assessments. This may be partly due to an improved QAR process for the 2011 round, although this cannot be confirmed due to a lack of documentation of that process. However, there would have been benefit in DoHA extending its QAR of application assessments to include a focus on assessments close to the cut-off lines for each stream, and more fully documenting its review of assessments.[121]

Assessment panel composition and support

3.71 The *Commonwealth Grant Guidelines* advise agencies that those involved in grants administration should be adequately trained and care should be exercised to ensure that competing demands on staff time and scarcity of expertise do not lead to variations in the standards of appraisal and administration.[122]

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[120] ibid., p. 7.

[121] As discussed in paragraph 3.25, inconsistent scoring affected whether some applications fell above or below the cut-off for shortlisting.

[122] Department of Finance and Deregulation, op. cit., p. 23.

2010 round

3.72 Under the *2010 PCIG Assessment Plan*, the assessment panels were intended to consist of up to 10 staff at any one time on a rotating basis. In practice, virtually all GP Super Clinics branch staff 'supplemented by State Office staff, contractors and other Primary Care and Ambulatory Division staff on a negotiated basis' were involved in the 2010 round assessments either as assessment panel members or panel chairs. At the completion of the assessment process, 43 people had been panel members and five people had been panel chairs.

3.73 Around 12 assessment panel members were rostered on at any one time, which involved them undertaking assessments over several hours during either a morning or afternoon session. DoHA advised that this rostering system (which was to allow branch staff to manage their time between assessing PCIG grants and their day-to-day tasks) did not work well, as rostered staff were not always available due to them attending to other urgent or priority tasks.

3.74 The *2010 PCIG Assessment Plan* also identified that financial and construction technical experts may be used to support the work of the assessment panels. Specifically, the plan gave the example of an Independent Construction Advisor, who 'could be used to provide advice on an assessment of value for money, where applicable'.[123] However, DoHA did not seek the input of the Independent Construction Advisor in relation to the assessment of any individual applications. The rationale for this decision was that the advisor was to be used only when instances of complex construction issues were apparent, and that the consideration of value for money was incorporated into the funding agreement process for the procurement of a builder, such as the requirement of grant recipients to obtain a least two quotations from licensed builders.

3.75 Assessment staff from the 2010 assessment round interviewed by the ANAO considered that the training provided to them was adequate and helpful. They stated that the training covered areas such as: probity requirements; how to use the assessment template and interpret the

[123] DoHA, *Primary Care Infrastructure Grants: Application Assessment Plan*, August 2010, p. 3; and Annexure B, p. 16.

information provided by applicants; and the policy context behind the PCIG program.

3.76 Notwithstanding the positive comments made by DoHA staff about the provision of training, the significant proportion of inconsistent scores and comments identified by the ANAO indicates that the composition of the assessment panels and level of support provided to staff could have been improved.

2011 round

3.77 In the 2011 round, assessment panels were constituted exclusively of 14 non-ongoing contractors recruited specifically for PCIG assessment purposes. DoHA stated that many of the contractors employed had previous experience in grants assessment and/or administration. This strategy alleviated the problem encountered in 2010 where DoHA staff shared assessment panel commitments and regular GP Super Clinic duties. A dedicated Primary Care Infrastructure Branch was also created in 2011.

3.78 Another major area that was changed in light of lessons learned from the 2010 PCIG program was the training provided to assessment staff. As identified above, in relation to the 2010 PCIG program, DoHA did not keep a record of the materials that were provided to staff, and could not identify logs or records verifying if all staff attended training. In contrast, DoHA could identify the content of the training provided to staff and the records of those that attended in the 2011 program.[124] DoHA also used a register to track which staff received components of the training, with some staff who were considered to have sufficient experience not required to attend the training.

3.79 Of particular note, DoHA recognised previous problems around the identification of tenure and provided extra training to staff so that they could better determine whether an applicant had existing tenure over their proposal.

[124] The framework was designed to support and train staff in: key components of the Government's health reform policy and aspects of GP Super Clinic style services; the 2011 PCIG program Probity Plan, confidentiality, code of conduct and declaration of interest arrangements; how to conduct compliance checks and application assessments; and the expected use of a communication and issues register. DoHA, *Primary Care Infrastructure Grants: 2011-12 Funding Round–Proposal for Training Framework*, p.1.

3.80 Support material was also provided to panel staff, such as the updated 2011 PCIG program guidelines, the assessor guidelines and the Invitation to Apply documentation provided to grant applicants.[125]

3.81 The large numbers of staff involved in the 2010 assessments increased the risk of inconsistency in the assessment results, and the change to a smaller, dedicated pool of assessors in the 2011 round addressed this risk. DoHA's documentation and development of the training framework to support staff in 2011 was also more thoroughly devised than that for the 2010 PCIG round. These key changes, along with other administrative changes discussed earlier in this paper, contributed to the more effective administration of the 2011 PCIG round as compared to the 2010 round.

Preventing double dipping of grant funding

3.82 Agencies are required to specifically manage the risk of grant recipients double dipping grant funds (that is, grant recipients being able to obtain grant funding for the same project purpose from more than one source).[126]

2010 round

3.83 To address the risk of double dipping, DoHA's application assessment form contained two questions that applicants were required to complete. These questions aimed to identify other previously submitted/pending and/or potential applications for Commonwealth grants or incentives; and any overlap that may exist with other previous state/territory or Commonwealth funded projects.

3.84 DoHA required its staff to identify in their final assessments of the applications if the responses provided required 'follow-up'. Evidence of application assessments identifying that a follow-up was required by DoHA shows that some applicants identified that they were receiving/or applying for other Commonwealth grants, such as the:

- National Rural and Remote Health Infrastructure Program (for a building extension and site development); and
- General Practice After Hours Care Program.

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[125] DoHA, *Training Folder for 2011 Assessors*.

[126] Department of Finance and Deregulation, op. cit., p.16; and ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, Canberra, p. 47.

3.85 One example also involved an applicant identifying that it was managing over 70 individual grants (many of which did not relate to the proposed site in which PCIG funds were being sought). This was identified in the assessment by DoHA as requiring follow-up action, but this follow-up did not take place.

3.86 DoHA initially advised the ANAO that apart from instituting a process for liaising with the DoHA's Office of Aboriginal and Torres Strait Islander Health, no further enquiries (follow-up) regarding the risk of potential grant recipients double dipping grant funds occurred. Subsequent advice was provided, stating that an additional process to identify overlaps with the National Rural and Remote Health Infrastructure Program occurred after the shortlisting of 2010 PCIG applicants had been announced and, as such, 'no reductions were made to budgets'.

2011 round

3.87 DoHA also required staff conducting the 2011 PCIG application assessments to identify whether follow-up action was required if applicants indicated that they were in receipt of other, similar grant funds.

3.88 DoHA advised the ANAO that in instances where assessment staff identified that follow-up action was required, this was noted on individual electronic records. At 18 November 2011, DoHA stated that it 'is not yet in a position to identify instances of negotiations that led to a reduction in grant budgets as negotiations have not yet commenced'.[127]

Conclusion

3.89 DoHA faced challenges in assessing the relative value for public money of competing PCIG projects due to: the diversity in the type, scale and location of infrastructure; differences in the new services proposed; and differing clinical training placement and facilities scenarios. Beyond these contextual difficulties, however, limitations in the design and implementation of the assessment process inhibited the department's capacity to assess value for money. These limitations related to the weighting of selection criteria across the program outcomes, and the limited use made of information received from applications. The department's assessment process and program guidance had

[127] DoHA subsequently advised of one case in which a project was reduced by $90 000, but the ANAO notes this was largely for reasons unrelated to any potential double dipping.

a strong compliance orientation, encouraging assessors to focus on the level of detail provided by applicants and any 'deficiencies' in documentation, rather than making use of that information to form a view on the relative value for public money offered by projects.

3.90 Other shortcomings in DoHA's processes and practices to assess the 2010 PCIG funding applications related to the consistency of assessments and the lack of a documented quality assurance review process. In a number of cases, consistent scoring would have affected the application's shortlisting status, including in two cases where this would have moved applications from above to below the cut-off score for shortlisted applications.

3.91 There was an improvement in the assessment of the 2011 PCIG applications, drawing on the lessons learned in the previous round. This was reflected in, among other things, a lower rate of inconsistencies being identified in the ANAO's analysis of grant assessments from the 2011 round. Nonetheless, the ANAO again identified instances where more consistent scoring would have affected the application's shortlisting status, including three cases where this would have moved applications from above to below the cut-off score for shortlisted applications. To help manage this risk, there would have been benefit in DoHA extending its quality assurance review of application assessments to focus on assessments close to the cut-off lines for each stream, and more fully documenting its review of assessments.

4. Negotiating, Approving and Executing Grants

This chapter examines the negotiation of individual grant funding agreements and the subsequent approval and execution of these agreements.

Introduction

4.1 Following DoHA's completion of the assessments process, a number of important steps were required to be completed before grants could be awarded to successful applicants.

4.2 The first step involved the Minister providing 'policy approval[128]' of assessment panel reports and identifying (in the case of the 2010 round) and approving (in the case of the 2011 round) the allocation of funding between the three grant streams. From this, a 'shortlist' of preferred grant applicants was generated. DoHA would then enter into individual negotiations with shortlisted applicants to reach agreement on the proposed project-specific details to be inserted into the funding agreements.

4.3 If negotiations were successful, formal approval of individual grant funding agreements was made by a DoHA delegate under Regulation 9 of the Financial Management and Accountability Regulations 1997 (FMA Regulation 9), followed by execution of the agreements.[129]

4.4 This chapter examines:

- DoHA's advice to the Minister in relation to the outcomes of the PCIG 2010 and 2011 round assessment phases;
- DoHA's processes and practices for negotiating individual funding agreements with shortlisted 2010 round applicants;
- the 2010 round grant approval and execution processes; and

[128] The term 'policy approval' is contained in the relevant briefs to the Minister. It is used to distinguish the Minister's decisions on the allocation of funding between the grant streams 'pools' from financial approvals of spending proposals under Regulation 9 of the *Financial Management and Accountability Regulations 1997*. The Minister was asked to note that these approvals would be exercised by an appropriate departmental delegate.

[129] If the funding agreement negotiations were ultimately unsuccessful, projects were withdrawn from consideration.

- reasons for delays in executing PCIG 2010 round funding agreements.

4.5 To provide a basis for the ANAO's assessment, the ANAO undertook a detailed examination of a sample of 41 shortlisted applications from the 2010 funding round across all three streams. The sample was chosen to reflect a broad spectrum of applications.[130]

DoHA's advice to the Minister regarding PCIG assessment outcomes

2010 round

4.6 Following assessment of the applications by the departmental assessment panels, the panel reports and associated merit lists for each funding stream were supplied by DoHA to the Minister on 19 November 2010, together with a formal covering brief and background information.[131]

4.7 The three stream merit lists included a range of applicant data[132], including whether the project involved a proposed relocation of premises. In a few cases, risks such as tenure issues requiring clarification were noted against relevant projects.[133] The numerical assessment score (out of 100) was shown for each project, with all projects sequentially listed from the highest score at the top, with projects scoring below 50, and those assessed as ineligible or non-compliant, appearing towards the bottom. The lists also showed the cumulative cost of funding projects from the top-ranked project downwards.

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[130] The sample included shortlisted applications where, as at early December 2011: no funding agreement was concluded and the application had been withdrawn (four); funding agreements were still under negotiation or awaiting execution (eight); funding agreements had been executed and projects were at various stages of progress (22); and projects had been completed (seven).

[131] DoHA, *Minute to the Minister—Primary Care Infrastructure Grants:Outcomes of the 2010 Round*, 19 November 2010. The briefing material advised that the assessment process included consideration of whether individual applications represented value for money against the selection criteria. As discussed in Chapter 3, the ANAO does not consider that the assessment process adequately addressed value for money.

[132] Information on the merit lists included: the name of the each applicant; the amount of funding sought for the project; the name of the medical facility; and its location in terms of suburb or town, state or territory, Australian Standard Geographical Classification Remoteness Area and electorate; and whether the application was for an Aboriginal Medical Service.

[133] For the 2010 round, DoHA had a policy of not contacting applicants to seek clarifications or more information on applications during the assessment process. This was changed for the 2011 round, although advice from DoHA was that less than five applicants were contacted for these purposes in the 2011 round.

4.8 The purpose of the brief was to seek the Minister's policy approval of the recommendations for funding the applications received in the 2010 round. This was considered necessary because the final funding allocations for the three streams had not been fixed by Cabinet, and required decision by the Minister. The Minister was, in effect, asked to decide the quantum of funds to be allocated to each stream. The Minister's decisions on each individual stream necessarily affected the funding available for the other streams.

4.9 The brief recommended that the Minister:

- give 'policy approval' to the assessment reports;
- identify which applications on the respective merit lists attached to the reports should be shortlisted for DoHA to enter into 'without prejudice'[134] negotiations regarding grant funding agreements;
- note that DoHA would exercise FMA Regulation 9 and other requirements of the financial management framework; and
- note that, in the event of unsuccessful negotiations with shortlisted applicants, DoHA would commence negotiations with the applicant next on the merit list.

4.10 The brief did not make specific recommendations as to which of the individual applications on the merit lists should be shortlisted.[135]

4.11 The assessment reports stated that grant applications had been assessed for value for money against the relevant selection criteria for the particular funding stream. The Minister approved the three assessment reports.[136] The Minister also identified the applicants to be shortlisted for negotiations by drawing a 'cut-off' line part-way down each of the three merit lists and making an annotation to the effect that all applicants (with one exception) above that line were shortlisted.

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[134] These negotiations did not guarantee that a shortlisted applicant would receive a grant. Grants would only be awarded following formal approval under FMA Regulation 9 and subsequent execution of the grant.

[135] As the Minister was not undertaking the FMA Regulation 9 financial approval function, the absence of such a recommendation was not in breach of the CGGs. Where a Minister does exercise this approval function, paragraph 3.19 of the CGGs requires that a Minister must first receive agency advice of the merits of relevant proposed grants.

[136] Approval of the three assessment reports was indicated by the Minister's signature and annotation on the covering brief. DoHA also made provision for the Minister to sign-off on each of the assessment reports, which was done for two of the three reports.

4.12 Table 4.1 identifies that the actual allocation of funds as reflected by 'cut-off' lines corresponded reasonably closely with the indicative total funding amounts available for each stream contained in the PCIG guidelines and reproduced in the Ministerial brief, although the cut-off was slightly below the indicative amount in the case of Stream A and slightly above for Stream C. Table 4.1 also shows that the minimum numerical assessment score required to be shortlisted varied considerably between each stream, although the disparity between the minimum scores for each stream would have been greater had the Minister drawn the cut-off line to exactly correspond with the indicative funding allocation for each stream.

Table 4.1

2010 assessment outcomes (allocation of funds and cut-off scores)

2010 PCIG round	Indicative allocation of funds shown in guidelines	Actual allocation of funding approved by Minister	Cut-off score based on indicative allocation of funds	Actual cut-off score based on Minister's policy approval
Stream A	$16.50 million	$14.90 million	67.90	70.30
Stream B	$18.00 million	$17.60 million	79.00	79.00
Stream C	$30.00 million	$32.00 million	86.80	85.40
Total	**$64.50 million**	**$64.50 million**	–	–

Source: ANAO analysis of the 2010 PCIG *Application Assessment Reports* (Streams A to C).

4.13 The Minister did not record any reasons on the brief for her decision not to shortlist one application, which was above the cut-off line. At the time, DoHA did not request any information from the Minister regarding this decision as it considered it had been 'a discretionary policy decision for the Minister'. However, DoHA subsequently informed the ANAO that 'recent discussions indicate that, in making her decision to exclude [the relevant application] from the shortlist, the Minister had regard to the shortlisting of [another application from an Aboriginal Medical Service] in the same electorate [which had scored slightly lower] and her policy decision was to shortlist an Aboriginal Medical Service in the same geographical area'. While the *Commonwealth Grant Guidelines* do not require Ministers to record the reasons for a decision of this nature, in the interests of transparency (particularly in view of the possibility that the applicant might seek feedback

from DoHA on the reasons for their being unsuccessful)[137], it would have been prudent for DoHA to have sought further information from the Minister at that time.

4.14 The Aboriginal Medical Service application shortlisted by the Minister in preference to the application that fell above the cut-off line was ultimately withdrawn from consideration and thus not funded. Once that happened, DoHA did not contact the applicants for the project that fell above the line to establish whether they wished to commence negotiations over a funding agreement. Two other projects from the same electorate were shortlisted, and ultimately did receive funding.

4.15 Where Ministers take responsibility for approving grants under FMA Regulation 9, and the approval is for a grant in respect of their own electorate, the *Commonwealth Grant Guidelines* require that they advise the Finance Minister of this in writing.[138] While noting the Minister would not be making a FMA Regulation 9 decision by deciding on funding allocations between the funding stream pools, DoHA advised that writing to the Finance Minister with details of shortlisted applicants in the Minister's electorate would be 'in the spirit of the [Guidelines] and transparency of decision making'.[139] The Minister accepted this advice and wrote to the Finance Minister.

2011 round

4.16 On 14 November 2011, DoHA provided a brief to the Minister on the outcomes of the 2011 round.[140] Compared to the 2010 round, DoHA adopted a different approach in this briefing, as discussed below. However, the Minister's function was again to give policy approvals rather than to exercise the FMA Regulation 9 decision-making function.

Reallocation of 2011 round funds between streams

4.17 As discussed earlier, DoHA did not make specific recommendations in the 2010 Ministerial brief about the individual projects to be shortlisted in the

[137] There is no evidence that the applicant sought feedback from DoHA on the reasons for their being unsuccessful.

[138] Department of Finance and Deregulation, op. cit., paragraph 3.20.

[139] DoHA, *Minute to the Minister—Primary Care Infrastructure Grants: Outcomes of the 2010 Round*, 19 November 2010.

[140] DoHA, *Minute to the Minister—Primary Care Infrastructure Grants: Outcomes of the 2011 Round*, 14 November 2011.

2010 round. The Minister's decision to allocate funding to correspond reasonably closely to the notional allocation between streams contained in the 2010 guidelines resulted in considerable disparity in the minimum numerical assessment score required to be shortlisted.[141]

4.18 In the 2011 brief, DoHA recommended a reasonably significant departure from the notional allocation set out in the 2011 program guidelines, with around $6 million to be reallocated from Stream A to Stream C. DoHA advised that this 'prioritises the allocation of funding to the higher scoring and better quality applications'.[142] The brief included a list of those applications which would be shortlisted if the Minister accepted the recommended reallocation of funding.

4.19 Table 4.2 shows that the reallocation of funding still resulted in a requirement that applications in Stream C score very highly in order to make the cut-off for recommended shortlisting. However, without the reallocation of funds away from Stream A, the cut-off score for applications for Stream A funding would have been below 50, resulting in the shortlisting of relatively lower rated projects. The recommended shortlists, incorporating this reallocation of funds from Stream A to Stream C, were approved by the Minister.

Table 4.2

2011 assessment outcomes (allocation of funds and cut-off scores)

2011 PCIG round	Indicative allocation of funds shown in guidelines	Actual allocation of funding approved by Minister	Cut-off score based on indicative allocation of funds	Actual cut-off score based on Minister's policy approval
Stream A	$15.00 million	$9.29 million	45.71	80.00
Stream B	$15.00 million	$14.11 million	86.29	87.57
Stream C	$22.50 million	$28.84 million	93.40	92.00
Total	**$52.50 million**	**$52.24 million**	–	–

Source: ANAO analysis of the 2011 PCIG *Application Assessment Reports*.

[141] See Table 4.1.

[142] DoHA, op. cit., p. 3.

Shortlisting of grant applications on an exceptional circumstances basis

4.20 DoHA recommended that three applications warranted special consideration for shortlisting on the basis of exceptional circumstances.[143] DoHA advised the Minister that the *Commonwealth Grant Guidelines* observe:

> There may be instances where it is considered necessary to waive or amend the eligibility and assessment criteria established for a granting activity, in whole or in part. Such instances may include emergencies, urgent or unforeseen circumstances, and exceptional circumstances.'[144]

4.21 However, the *Commonwealth Grant Guidelines* also state:

> In the interests of transparency, accountability and equity, grant guidelines should document the circumstances in which the eligibility and assessment criteria set out in grant guidelines may be waived or amended. [145]

4.22 The PCIG guidelines (both the 2010 or 2011 versions) do not mention any such circumstances.

4.23 While the three applications in question had been identified as non-compliant because they involved the construction of new buildings[146] (including a transportable building), they were still assessed and scored. Two of the three projects scored below the proposed numerical cut-off score for the relevant stream, a fact noted in DoHA's advice. The projects, therefore, ranked lower than some projects that were not recommended for shortlisting.

4.24 The Minister approved the shortlisting of the three projects.

Shortlisting of grant applications on a non-merit basis

4.25 DoHA's 2011 briefing noted that there could potentially be $5 million in unallocated funds from the 2010 round as a number of projects might not proceed due to a withdrawal by the applicant or the failure to reach a consensus on a funding agreement.[147] Further, the briefing stated that 'it is consistent with the [original] policy to allow for funding to be managed

[143] ibid., Attachment G.

[144] ibid., p. 2.

[145] Department of Finance and Deregulation, op. cit., p. 29.

[146] The 2011 guidelines did not permit PCIG funding to be used to construct entirely new premises.

[147] Based on figures current at 12 April 2012, 214 projects from the 2010 round had executed funding agreements, representing PCIG funding of $54.4 million, with another 14 projects still under negotiation, representing $5.5 million – a combined total of $59.9 million. Total allocated funding for the 2010 round was actually $64.5 million.

flexibly and offered through a mix of funding arrangements, particularly as the agreed arrangements [of the two funding rounds] have been implemented and over 425 upgrades will be completed'.[148] In addition to using approximately $1.3 million of the $5 million to fund the 'exceptional circumstances' projects discussed above, DoHA suggested an option may be to 'provide funding to the small number of geographic areas in Australia that will not benefit from funding through the PCIG rounds or the GP Super Clinics Program'.[149] This effectively proposed a departure from the competitive, merit-based shortlisting process.

4.26 The brief recommended that the Minister approve DoHA providing her with further advice around the use of unallocated funds from the 2010 round to target geographic localities that would not benefit from the PCIG Program or the GP Super Clinics Program. The Minister approved the recommendation and the follow-up advice was subsequently provided to the new Minister in February 2012.[150]

4.27 The advice noted that four electorates had not received any primary care infrastructure funding.[151] DoHA proposed that, for each electorate, the relevant applications received in both the 2010 and 2011 rounds be ranked according to their original assessment scores, thus creating a merit list for each electorate. DoHA would then contact the most highly-ranked project within each electorate, provide feedback on their application and 'invite them to provide responses to some of the deficiencies identified in their application'.[152] The application would then be assessed against the program guidelines to 'ensure that they meet program objectives'.[153] The objective was to elicit one viable application in each electorate that could be used to commence funding agreement negotiations, followed by execution of an agreement by DoHA if the negotiations were successful.

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148 DoHA, op. cit., p. 3.

149 ibid., p. 3.

150 DoHA, *Minute to the Minister—Primary Care Infrastructure Grants:Support for all Regions in Australia*, 14 February 2012.

151 The electorates that had not received any primary care infrastructure funding were Bowman, Goldstein, Melbourne Ports and Stirling.

152 DoHA, *Minute to the Minister—Primary Care Infrastructure Grants:Support for all Regions in Australia*, 14 February 2012.

153 ibid.

4.28 DoHA considered this proposed process would achieve value with public money 'as providing grants to these areas will achieve worthwhile policy outcomes that may not occur without grant assistance'.[154] The Minister approved the proposal.

4.29 The Minister, in considering the 14 November brief, also chose to shortlist two applications that DoHA had not recommended be shortlisted.[155] The Minister recorded her reasons for this decision as being that 'there [are] no PCIGs in [the] area'.[156] One of these projects in particular had a low assessment score (64.71, against a cut-off score for 80 in Stream A). Furthermore, the applicant did not submit a risk management plan to DoHA as part of their application, and the budget provided that the majority of the work to be completed was for the fit-out of computers, medical equipment and furniture and not for capital works.[157]

Augmented assessments of Aboriginal Medical Service applications

4.30 In the 2011 round, assessment of the applications submitted by Aboriginal Medical Services were 'augment[ed]' through the input of DoHA's Office of Aboriginal and Torres Strait Islander Health (OATSIH).[158] In two cases this led to applications (that had otherwise been assessed by DoHA as scoring above the recommended Stream C cut-off mark) being not recommended for shortlisting 'due to concerns about the capacity of these

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154 ibid.

155 DoHA, *Application Assessment Report: Funding Recipient Table of Results for Stream A and C*, November 2011.

156 The *Commonwealth Grant Guidelines* require that Ministers will report annually to the Finance Minister on all instances where they have decided to approve a particular grant which the relevant agency has recommended be rejected, with the report to include a brief statement of the reasons for the approval for each grant. However, this requirement did not apply to the actions of the Minister for two reasons. Firstly, because the Minister was not granting FMA Regulation 9 approval by allocating funding between the stream pools and secondly, because DoHA did not actually recommend that the applications not be funded.

157 The 2011 guidelines provided that PCIG funds could not be used for projects 'entirely or predominantly seeking funding for IT / medical equipment'. DoHA advised the ANAO that in interpreting this, they placed emphasis on whether the application would meet relevant program objectives, rather than applying an upper level on the quantitative proportion of funding utilised for non-capital costs.

158 Considering input from OATSIH was part of an approach introduced for the 2011 round following an enquiry from the Minister for Indigenous Health as to 'what was causing the applications for Aboriginal Medical Services to fail the [2010 assessment] process'. The approach first involved a 2011 Assessment Panel Chair and the Moderator (according to advice from DoHA both had experience in working with indigenous communities and organisations) undertaking quality assurance reviews on the assessments of Aboriginal Medical Service applications. The second part of the approach involved seeking comments from OATSIH 'so that a better understanding of the circumstances faced by the [applicant] organisations could be ascertained'.

organisations as reported by the Risk Assessment and Management Section of OATSIH'.[159] The brief listed the specific concerns relating to the respective applications, which included issues such as corporate governance, breaches of previous funding agreements, and financial management. The recommendation to exclude these applications from the proposed shortlist was approved by the Minister.

Negotiating agreements with shortlisted applicants

4.31 Following the Minister's shortlisting decision, DoHA began negotiations with relevant applicants over the funding agreements. Funding agreements should protect the Commonwealth's interests in ensuring that public money is used for the intended purpose. To do so, the agreements must specify the relevant grant conditions with sufficient precision so that it can be determined whether the recipient is complying with those conditions.

4.32 Two steps were required to achieve appropriate funding agreements. These steps were:

- developing funding agreement templates to be used as the basis for commencing individual negotiations; and
- negotiating the individual funding agreements with each shortlisted applicant.

Funding agreement templates

4.33 To facilitate the negotiation of individual funding agreements, DoHA developed a series of funding agreement templates. As previously discussed, the PCIG program was originally developed as a small grants scheme under the administrative umbrella of the larger GP Super Clinics program. Reflecting this formation, DoHA based the PCIG funding agreement templates on those developed in 2008 for the GP Super Clinics program, but of smaller size due to the lower materiality of the grants and lesser complexity of PCIG projects.

4.34 The templates were used by DoHA project officers as the basis for negotiating and potentially executing a funding agreement for individual grants. A slightly different template was developed for each of the three PCIG funding streams for the 2010 round, although an internal review concluded

[159] DoHA, *Minute to the Minister—Primary Care Infrastructure Grants: Outcomes of the 2011 Round*, Attachment C.

that the templates were overly complex and the requirements placed on the funding recipients were repetitive. As a result of this finding, a decision was made to adopt a single template to be used for the 2011 round funding agreement negotiations across all three funding streams. Notwithstanding the review process, the length of the 2011 common funding agreement template remains around the same as the 2010 templates. A key change is a considerable scaling-back of reporting obligations once construction is completed.

Negotiating the 2010 funding agreements

4.35 As outlined in the PCIG guidelines, grants were contingent on the execution of a funding agreement. The following steps were important elements of the process used to negotiate and reach agreement on a funding agreement:

- initial contact by a DoHA project officer to confirm application details;
- confirm the entity to receive the grant and establish correct Australian Business Numbers and addresses;
- establish the nature of tenure[160];
- establish a timeline, relevant milestones and payment schedule; and
- review eligibility and consider the replacement of shortlisted applicants that withdraw.

4.36 In addition to these steps, other issues occasionally had to be dealt with, for example reviews of eligibility following changes to the project proposed by the applicant. Sometimes delays meant that the project milestone schedule had to be revisited before execution and, on occasion, project applications were withdrawn.

Initial contact

4.37 DoHA informed shortlisted applicants of the results of the 2010 round via email on 25 November 2010, immediately after the Minister announced the shortlist.[161] This was followed by an initial personal phone call by the DoHA

[160] The specified health services are required to be offered at the funded facility for periods of two to five years after completion of the building works, and so security of tenure is required for an equivalent period.

[161] This email specified that a formal offer of a grant was contingent on the execution of a funding agreement.

project officer assigned to the applicant. Most of the initial personal contact introductions (36 out of 41 in the sample) were carried out before Christmas in 2010.

Confirmation of the entity

4.38 At the start of the process of negotiating funding agreements, DoHA was not fully prepared to deal with the sometimes complex processes to establish the correct entity to receive the grant funding. Many general practices were set up with companies being trustees for doctors' superannuation funds, which often owned the premises to be upgraded or extended. Sometimes there was a separate medical services company that provided administrative support to the practice. On other occasions, there was also a separate arm's-length landlord. These complexities were not identified in the PCIG (program level) risk management plan adopted by DoHA in June 2010, but became evident during funding agreement negotiations.

4.39 DoHA sought advice on the issue from external legal advisers in February 2011, especially with respect to the situation where the owner of the building was not the provider of medical services. The advice commented that 'this risk is not unique to the PCIG program but occurs in any capital works program where the Commonwealth funds the construction/building of a facility, on the condition that particular services are then delivered from that facility'. The legal advice resulted in the development and insertion of a 'third party provider' clause into draft funding agreements. This clause required the grant recipient to enter into a legally-binding agreement with the service provider to ensure the delivery of the services. In addition, DoHA provided training to project officers on complex business structures and tenure issues to assist them to negotiate with shortlisted applicants.

4.40 In some cases, further complications arose when applicants decided to establish a new practice during the negotiation process. On other occasions, decisions were made to change the substantive recipient of the grant, such as from the practice to the building owner. Some practice managers themselves did not understand the legal status of their business structures, initially giving incorrect advice to DoHA. These factors led, on occasions, to significant delays.

4.41 The most common arrangement (as documented in 28 out of the 32 executed funding agreements in the ANAO sample) was for the grant to be negotiated with the entity that ran the medical practice. The practice would then be responsible both for undertaking the construction work and providing the subsequent services, reducing the risk to the Commonwealth. Where a

project involved constructing extensions to a landlord's property, then in effect the landlord received the benefit of any potential increase in the value of the property. In the sample of projects, the ANAO did not observe any instance of a third-party landlord contributing to the cost of the project.

4.42 DoHA reviewed company details through searches of Australian Securities and Investments Commission (ASIC) databases, sometimes revealing mistakes in the information provided by the applicant. DoHA also employed law students to review the details of the entity, which often led to corrections to the draft funding agreement. A quality assurance process to ensure the details were correct and appropriate was then undertaken through the sign-off by a particular director in the GP Super Clinics Branch.

4.43 The complexity of ownership arrangements represented a potentially significant and unanticipated risk to the timely roll-out of outcomes of the program, particularly in terms of ensuring that health services would continue to be provided over the entire designated use period. While the risks were not identified in the original risk assessment, DoHA was obliged to devote significant resources to managing these risks, and DoHA's 2010 negotiation review concluded that, overall, the process was the source of 'considerable delays' in finalising the draft agreements. As part of an amended process agreed to as a result of the review, DoHA plans to seek copies of the Australian Business Number (ABN) registration certificates and Australian Company Number (ACN) registration certificates at an early stage in the agreement negotiation process, with verification occurring through checking the details on ASIC and ABN websites. This approach is based on that of the National Rural and Remote Health Infrastructure Program.

Establishing tenure

4.44 Under the program, continuity of health service provision is required for periods of two to five years after completion of the building works. Security of tenure for that period is therefore required. For the 2010 round, establishing security of tenure was required at an early milestone, normally Milestone 1, before any funds were received, and DoHA often requested tenure information before it was formally required under the funding agreements.

4.45 In some cases, the general practice had poorly structured tenure arrangements, such as an informal agreement between related entities that owned the property and operated the practice. This needed to be resolved, (by concluding a fresh lease) before the Milestone 1 payment could be made. On other occasions, letters of comfort that the landlord would extend the lease to

cover the period of obligations were required. While this was a reasonable approach to reducing risks around tenure, there was no record indicating that DoHA sought legal advice on the issues.

4.46 This matter was also addressed in the 2010 negotiation review, and like the entity issue, was considered to be resource intensive and often a contributor to delays in progressing agreement negotiations. As a result of the review, DoHA decided to adopt a process derived from that employed in DoHA's Health and Hospitals Fund program. Under this process, DoHA requires, at an early stage, a letter from the shortlisted applicant's legal advisor verifying the property details, tenure and confirmation that the property will be used for the full designated use period.

Establishing a timeline, milestones and progress payment schedule

4.47 A key part of the funding agreements is a timeline which sets out the dates of the milestones, particularly with respect to the construction phase. Most applications provided a proposed timeline for project commencement and completion. If such a timeline was available, it was used as a starting point in negotiating a milestone timeline. The DoHA project officer would draft a timeline and send it to the shortlisted applicant for comment.

4.48 The milestones that were used varied slightly. The most common pattern was to have three initial milestones:

1. Details of ownership, tenure and bank account.

38. Project documents, including plan, budget and risk assessment.

39. Project approvals, a procurement report and project manager details (at which stage approval was given to start construction).

4.49 These initial milestones were often very closely grouped. As Milestone 1 was normally expressed as the date of execution of the funding agreement plus 14 calendar days, and other milestones had specific dates, there were frequently occasions (11 out of 29 in the sample of executed funding agreements) where Milestone 2 was due before Milestone 1. However, the ANAO did not observe any negative consequences attached to this occurrence in respect of the sampled funding agreements. After July 2011, a new Milestone 1 was inserted, to be achieved by signing the funding agreement and providing bank account details.

4.50 Subsequent milestones varied considerably depending on the extent of the building project. A progress report was normally due at three months from

commencement of construction; but if the construction period was, for example, four months, this progress report was dispensed with. There would always be a report required shortly after completion of construction. Financial reports were also required, normally each 30 October following a financial year in which funds were received or expended, and bi-annual operational phase reports were required for the duration of the designated use period. Where progress on construction (and hence the anticipated date of completion) fell behind that set by the relevant milestones, a formal variation to the funding agreement milestones would be negotiated between the recipient and DoHA project officer and formally approved by the DoHA delegate.

4.51 A 'standard' pattern of payments was set out in the 2010 Guidelines: 40 per cent on engagement of professional support (such as an architect); 40 per cent on development approval, and 20 per cent on proof of practical completion. This pattern was varied by the time the funding agreement templates for each of the funding streams were revised in December 2010 for use in the first funding agreements.[162]

4.52 In practice, there were sometimes more substantial payments up front, and for one project examined in the ANAO sample, full payment was due before completion. ANAO analysis revealed that 20 of the 31, or 65 per cent of the funding agreements executed at the time of audit fieldwork, included non-standard payment schedules.[163]

4.53 DoHA advised that these variations were the result of discussion between project officers and the shortlisted applicants about the anticipated cash-flow requirements of the project, relating to the timing of the purchase of goods and services and payments to the contractor involved in the construction. However, there was limited documentation on the files reviewed by the ANAO of the reasons for variations from the standard payment schedule. In one case, the initial draft schedule followed the template, but the final agreement advanced 20 per cent of funds from the certificate of completion to the third interim report. Apart from notes that the funding

[162] By way of illustration, the Stream A template provided for a payment of 20 per cent for Milestone 1 (proof of title and tenure) and 40 per cent each for Milestone 3 (approval for construction to commence) and Milestone 6 (Certificate of Occupancy and Final Report). Templates for streams B and C had more payment points, but both started at proof of tenure and concluded with certificate of occupancy.

[163] Although the templates were adjusted during the period of developing the funding agreements, the only change that affected the pattern of milestones was the insertion of a new Milestone 1 as discussed above.

agreement had been discussed with the applicant, there is no indication of why the payment schedule was changed from that laid out in the template funding agreement. It would have been appropriate to document the reasons for any significant departures from the standard schedule.

4.54 The final payment at final report stage is linked to the provision of a Certificate of Occupancy that demonstrates the completion of construction and finalisation of building contracts. However, in no case were amounts reserved after the end of the construction phase. Having small payments at the latter stages of the project may be an effective way of encouraging timely acquittal and continued reporting to the end of the designated use period, particularly where, as in the case of PCIG, services must continue to be provided for some time after construction is finished.

Review of eligibility, withdrawal and replacement

4.55 Applications for the 2010 round were submitted in August 2010. In a small number of instances, applicants had commenced construction works by the time they were first contacted by DoHA project officers, and were thus ineligible to receive funding.[164] These applications were withdrawn. In some cases, a change of circumstances meant that the applicants chose not to proceed, and so withdrew their application.

4.56 For several projects examined in the sample, applicants proposed significant changes to the project following their assessment and shortlisting. Generally these changes involved a proposed move to a different location, or a change in the size or layout of the project. DoHA did not have any documented guidance or criteria on how to determine whether the changes were of a nature that invalidated or substantially undermined the original assessment and shortlisting. DoHA subsequently advised that if the 'end aim or intended purpose' of the project was essentially unchanged, any change to the proposed construction activities would not invalidate the assessment and shortlist, and negotiations could proceed on the basis of the changed project.

[164] Applicants were not permitted to enter into any contracts, or start work before funding agreements were executed. An additional condition was that work could not be started even after execution until DoHA had approved the start.

4.57 Consistent with the Minister's shortlisting approval, the Minister's office was generally advised of situations where changes in the project gave rise to questions of continuing validity.[165]

4.58 In a number of cases, where potential changes were proposed for projects, DoHA records indicate that the Minister's office took an active role in determining whether negotiations should continue, although the relevant exchanges between DoHA and the Minister's office were not consistently documented. However, the process sometimes clearly went beyond DoHA simply advising the Minister's Office of the situation—and in some cases DoHA appeared to be requesting the office to make a decision as to whether the project should or should not proceed.

4.59 On 6 January 2011, DoHA contacted an adviser in the Minister's office regarding two projects for which the applicants were proposing to move to alternative sites. The email set out a summary of relevant issues, along with the name, location and amount of funding sought by the applicant next on the merit list. The email stated that in relation to both projects 'a decision is required on whether this major change to the original proposal should be supported'. The email does not contain a specific recommendation. While there is no emailed reply or file note recorded, there is a subsequent email from DoHA to the same adviser stating 'thank you for confirming that the PCIG will not proceed with [the project]'.[166]

4.60 In another case, following negotiations, DoHA wrote to an applicant informing them:

> The application you submitted was assessed against the criteria set out in the Primary Care Infrastructure Guidelines 2010, namely the potential to upgrade an existing facility. Your original proposal suggested that [your application] broadly met this requirement. However, your proposal to move this site . . . constitutes a significant and material change to the basis upon which your application was assessed. Accordingly, in the context of transparency and

[165] The Ministerial brief recommended that the Minister note that DoHA would, in the event on unsuccessful negotiations with shortlisted applicants, approach the applicant next of the merit-based list: DoHA, Minute to the Minister—*Primary Care Infrastructure Grants—Outcomes of the 2010 Round*, 19 November 2010. The Minister noted the recommendation, but made the annotation 'but please advise the [Minister's office] first'.

[166] The other project referred to in the email from the Assistant Secretary was apparently still under discussion.

> equity of the funding process, the Department is unable to accede to your request to fund the project at a different site.

4.61 The relevant DoHA file indicates that, after receipt of the above, the applicant still wished to proceed with the amended project and discussed the matter with the Minister's office. A teleconference was held between the applicant and DoHA officials, and advice was sought from the Minister's office. Subsequently, an adviser in the Minister's office emailed the relevant DoHA Assistant Secretary to advise:

> Minister Roxon would like funding for this PCIG maintained, noting that it was their landlord who initially provided and then withdrew consent for their project, and the revised plans change the location but not the scope of the project. Can you facilitate this?

4.62 Following this correspondence, further discussions were held with the applicant regarding the new project and within weeks a funding agreement was executed.

4.63 Where applications were withdrawn (whether by instigation of the applicants or DoHA), the general process was to identify the highest ranked project within the same stream that had not been shortlisted (effectively a reserve list), and enter into negotiations with that applicant. DoHA developed a documented process for this withdrawal and replacement exercise in January 2011. In the interests of transparency and equity, in the context of a competitive grants process, DoHA should have documented the criteria or considerations guiding decisions about change of scope, and documented individual decision-making processes in a consistent way.

Approval and execution of funding agreements

Approval of the funding agreement spending proposal under FMA Regulation 9

4.64 DoHA project officers prepared draft funding agreements based on the milestones and payment schedule, the description of the project in the application and any modifications advised by the applicant (and accepted by DoHA), and the resolution of any tenure and entity issues. On some occasions, the project officer sent the entire draft funding agreement to the shortlisted applicant for comment. Key elements, such as the milestone schedule, were routinely sent to the proponent for review.

4.65 The draft funding agreement was then subject to an extensive set of checks within DoHA. Apart from the project officer and their supervisor, the draft was subject to review by the Program Funding and Procurement Service in DoHA, through a quality assurance process by senior officers, and through a review of the legal components (such as correct ABNs and addresses) by law students. All projects in the sample underwent these checks. Each of these processes, especially the last two, added value by finding and correcting discrepancies.

4.66 Once the funding agreement had been cleared and checked through the above processes, in all cases examined, a minute was prepared by the project officer recommending to the DoHA delegate that the funding agreement be approved and that expenditure under FMA Regulation 9 be approved. The minutes recommending FMA Regulation 9 approval were based on a template, which contributed to consistency of advice to the delegate.[167] The template contained: background information on the PCIG program; a description of the assessment process, performance and reporting measures; an outline of progress payment arrangements; risk management and proposed project and program evaluation arrangements; the project cost and timeframe; and confirmation that the appropriate FMA Regulation 10 approval had been given for the PCIG program.[168]

4.67 The amounts in the spending proposals were all within the authority held by the delegate.[169] On a small number of occasions (three out of the 31 approvals), the delegate, while endorsing the overall approach and signing the approval minute, did not explicitly annotate the recommendation approving funding under FMA Regulation 9.

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[167] DoHA advised that the Program Funding and Procurement Service provided guidance on the design of the minute template.

[168] In relation to the 2010 round, that approval was given on 10 November 2010 by the Assistant Secretary of the Budget Branch, Portfolio Strategies Division.

[169] The delegate was at the Director (EL2) level. The *Commonwealth Grant Guidelines* (p. 27) state that, as part of compliance with the key grants administration principle of 'probity and transparency', agencies should ensure an appropriate separation of duties. Such separation includes avoiding a situation where an individual is responsible for both assessing a grant and then giving FMA Regulation 9 approval. The ANAO notes that in the 2010 round a number of EL2 officials performed the role of assessment Panel Chairs, and as such could potentially be involved in substantial discussions with relevant assessors about the assessment of a particular application and then subsequently be the FMA Regulation 9 approver for that application. DoHA advised that 'no specific policy or procedures were in place to deal [with this situation] as in-house staffing resources were used and the described situation had not been foreseen as a problem. All staff involved with the assessment process and subsequent approval decision are guided by the *APS Code of Conduct*'.

Execution of funding agreements

4.68 Two unsigned copies of the funding agreement were sent to the proposed recipient for signature. Once signed by the recipient and returned to DoHA, the relevant DoHA project officer prepared a minute recommending approval and execution of the funding agreement by the delegate. On one occasion in the sample, there was a significant change after the initial offer of a grant in that the designated grant recipient changed. This was recognised with a fresh FMA Regulation 9 approval. On other occasions, milestone dates were revised.

Mandatory reporting requirements for grants

4.69 The *Commonwealth Grant Guidelines* include a mandatory reporting requirement for grants, specifying that information on individual grants be published no later than seven working days after the funding agreement for the grant takes effect.[170]

4.70 DoHA advised the ANAO that it extracts executed grant funding agreement information from its financial management system and uploads the details onto DoHA's website manually three times a week. Until September 2011, the financial management system restricted DoHA officers from entering details of funding agreements until the agreements were executed.[171] As the standard practice for PCIG funding agreements is that they commence on the day of execution, any delays by the departmental delegates passing on the executed documents to officers for entering relevant details increased the risk that this reporting requirement would not be met. In relation to the 2010 round, although the ANAO did not quantify the degree of compliance with the seven working day reporting requirement, DoHA advised there had been unspecified 'compliance breaches'.

4.71 DoHA further advised that since the 2010 round, timeliness is likely to have improved as new processes introduced in September 2011 simplified relevant data entry and minimised the risk of not satisfying this mandatory requirement in the 2011 PCIG round.

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[170] Department of Finance and Deregulation op. cit., clause 4.2. See also Finance Circular 2009/04.

[171] DoHA advised that since September 2011, a new interface for the financial management system has allowed details to be entered prior to execution of the agreements, with delegates also able to finalise entry at the time of execution, minimising risks of delays.

Delays in executing funding agreements

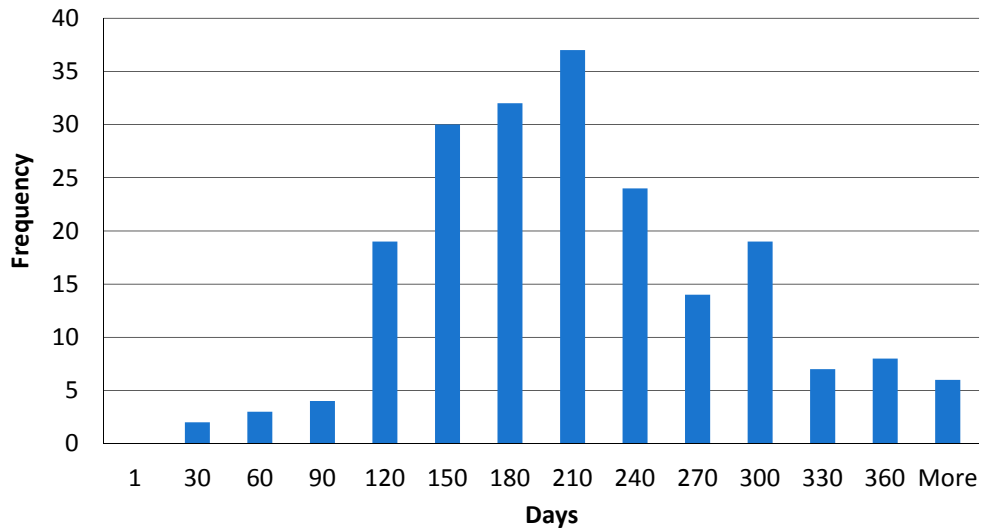
2010 round

4.72 Based on the 29 projects (from the sample of 41) that had executed a funding agreement as at 9 December 2010, the overall time from shortlisting to the execution of funding agreements varied from 41 days to 306 days, with an average of 175 days.

4.73 The ANAO also interrogated the entire Database of Infrastructure Grants Business Information (DIGBI) to determine whether the wide spread of times taken to execute a funding agreement in the ANAO's sample was indicative of the 2010 projects as a whole. For the data available to 9 December 2011, as shown in Figure 4.1, there was a broadly similar pattern of a large proportion of projects taking considerable time to reach execution—averaging around six months from the time of the shortlisting decision.

Figure 4.1

Time taken from shortlisting applicants for 2010 PCIG funding to the execution of funding agreements



Source: ANAO analysis based on DoHA data.

Causes of delay

4.74 Delays were brought about by a variety of reasons, including staff turnover within DoHA, project complexities, the availability of parties to

finalise the agreement, issues concerning financing, and/or the potential withdrawal of support by third-party landlords.

4.75 Some shortlisted applicants were slow to act on DoHA requests for the information required to advance the drafting of the agreement. In general, DoHA project officers were forgiving of delays. Setting firm deadlines may have helped to expedite the projects, and this approach was planned for the 2011 round grants.

4.76 In some cases, there were significant complexities to resolve with respect to ownership, tenure and formal names and addresses of the parties to the agreement. In a review of the 2010 round, DoHA concluded that its processes to deal with these complexities contributed to delays and, as a result, changes to the process have been instituted for the 2011 round.

2011 round

4.77 DoHA has recognised the need to better manage negotiations in order to expedite the execution of funding agreements, and revised some of its processes for the 2011 round. As of 12 April 2012, some 66 funding agreements had been executed, representing more than a third of the shortlisted applicants, with another 18 agreements awaiting signature by applicants. The 66 executed agreements were double the number executed in the equivalent period in the 2010 round.

Conclusion

4.78 DoHA's advice to the Minister regarding PCIG assessment outcomes supported the Minister's decision-making on the allocation of the pool of program funds between the three grant streams. Further, the department's processes and practices to negotiate the PCIG 2010 round funding agreements were generally sound, with its approach to negotiating timelines, milestones and progress payments for grant funding agreements reflecting the better practice principles set out in the CGGs.

4.79 However, in many cases there were substantial delays in finalising agreement negotiations and executing agreements, often arising from unanticipated issues, such as those relating to tenure and recipients' legal structure. Based on data available as at December 2011, an average of around six months elapsed from the time of shortlisting the preferred applicants to executing the 2010 round funding agreements. Following changes made by DoHA in some of its negotiation processes for the 2011 round, DoHA had, as

at April 2012, achieved a more rapid roll-out of executed funding agreements, with approximately double the number executed compared to the equivalent period in the 2010 round.

4.80 For the 2010 funding round, DoHA did not consistently comply with the mandatory grant reporting requirement to publish information on individual grants no later than seven working days after the funding agreement for the grant takes effect. The department advised that timeliness is likely to have improved following the introduction of new processes in September 2011 to simplify data entry and minimise the risk of not satisfying this mandatory requirement in the 2011 funding round.

5. Administering Grants to the Completion of Infrastructure Construction

This chapter examines DoHA's administration of individual 2010 round project grants after execution through to the completion of construction of the relevant infrastructure, including monitoring the achievement of the key milestones, making progress payments based on these achievements, and processing financial acquittal.

Introduction

5.1 DoHA's responsibility to promote the proper use of PCIG funds does not end with the execution of an appropriate funding agreement.[172] It must appropriately administer the grants, particularly through monitoring the project's progress to ensure compliance with the funding agreement, including the achievement of key milestones related to progress payments.[173] Failure to effectively monitor progress increases the risk that project objectives will not be fully met, with the result that the Commonwealth may not achieve value for money from PCIG funds.

5.2 Reflecting the key elements of administering executed grants, this chapter:

- assesses the monitoring framework established by DoHA for PCIG projects funded under the 2010 round;
- examines DoHA's assessment of the milestone reports submitted by grant recipients under the framework;
- reviews issues surrounding the construction of funded infrastructure including consistency with specifications in selected project plans; and
- assesses DoHA's payments against project milestones and the appropriateness of financial acquittal processes.

[172] Section 44 of the FMA Act provides that an agency Chief Executive must manage the affairs of the agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible.

[173] ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, Canberra, p. 90.

5.3 The ANAO reviewed DoHA's procedures and guidelines on monitoring the funded PCIG 2010 round projects, as well as conducting an examination of the 29 projects in the selected sample of 41 shortlisted projects that had executed a funding agreement as at early December 2011.

Monitoring framework

5.4 DoHA's monitoring process utilised the regular milestone reports that were required from recipients. These reports were assessed by DoHA project officers and submitted with advice to the delegate for formal approval, which was then communicated to the recipient together with notice of the associated progress payments. The first three or four milestones[174] related to the provision of: information on tenure; project documents such as risk assessments, budgets and timelines; a procurement process for the builder; and development and construction approvals from local authorities (where relevant). Once these milestones had been met, DoHA would provide the recipient with approval to commence construction. There were no specified formats or templates for these early-stage reports (although there were templates for some of the required 'deliverables' within the reports, as discussed below).

5.5 Depending on the size and length of the project, there were up to two progress reports required[175] before the final report on the works was submitted, normally accompanied by a certificate of occupancy and statement of funds used to complete the project. This later milestone normally led to the payment of the final tranche of funding. Subsequent milestones related to annual financial reports[176] and, at least for projects selected in the 2010 funding round, to ongoing biannual operational phase reports that provided assurance that key performance indicators (KPIs) and program objectives had been met.[177]

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[174] The milestones occasionally varied between projects, although the key deliverables were common to all sampled projects.

[175] A simple project requiring less than three months to complete construction works generally did not require any progress report. This approach had regard to the principle of 'proportionality' in the *Commonwealth Grant Guidelines,* which provides that procedures for grants administration should be commensurate with the scale, nature, complexity and risks involved in the granting activity: Department of Finance and Deregulation, op. cit., pp.19-20.

[176] These reports were only required for years in which grant funds had been received and or expended.

[177] As noted in Chapter 6, however, recipient's ongoing operational phase KPI reporting obligations were significantly scaled back under the 2011 round. These reduced obligations will also apply to projects funded under the 2010 round, and their associated funding agreements.

5.6 Templates were provided to recipients by DoHA to assist in reporting on construction-related deliverables. The templates covered topics such as a: risk assessment; project plan; end of financial year report; insurance certificate; and final report on works.

5.7 The first three milestones in some funding agreements were scheduled to be achieved on dates that were very close to each other. It is therefore not surprising that the reports were received at similar points in time (sometimes out of numerical sequence) and the assessment of the reports was likewise conducted over a short period of time. For one project in the sample, the first three milestones were approved at the same time. There would have been merit in DoHA considering whether such frequent reporting was consistent with the *Commonwealth Grant Guidelines* principle of proportionality, which encourages agencies to balance acquittal and reporting procedures against the level of risk and cost of compliance. There may have been opportunities for savings (for both parties to the grant) to be realised by combining more deliverables within each milestone report.

Assessing milestone reports

5.8 At the time of the audit, DoHA officers had not visited any PCIG projects to verify the reporting by proponents, and DoHA advised that it did not plan any visits. Instead, DoHA has relied on documentary evidence material from the grant recipient[178] to decide whether the milestones have been achieved and, where relevant, to approve the corresponding progress payment. Photographs were not required where reports related to the progress of construction works, although were voluntarily included by recipients in some cases.

5.9 DoHA implemented a comprehensive process for checking deliverables against the relevant milestone for the PCIG 2010 round. This process included the preparation of a list of deliverables by date for the relevant file, and a proforma minute to be used by the project officer when recommending to the delegate whether or not each milestone report should be accepted. This minute documented the required deliverables, advised on whether they were to an acceptable level, and provided references to them on file. One minor

[178] In some cases these documents included material supplied by third parties that were independent of the recipient—such as building certifiers in the case of occupancy certificates.

shortcoming was that the minute did not include the date when the milestone report was received and thus whether the reporting was on schedule.

5.10 In the sample, the ANAO found that most (77 out of 87) deliverables contained in reports claimed by grantees were properly evidenced. Where they were not, in the majority of cases DoHA project officers sought and received improved information from recipients before the milestone was considered to have been met and any accompanying funds approved. Only three cases were found (from the sample of 29 projects reaching a funding agreement) where a deliverable was not properly evidenced. These cases were:

- a project plan delivered as part of Milestone 2 that contained a schedule of opening hours insufficient to meet obligations. The project officer also critiqued the final report sent under Milestone 5 as inadequate. However, the replacement report provided by the grant recipient was still vague, for example, in describing the additional staff engaged;
- a project budget provided under Milestone 2 that was not supported by quotes; and
- a project plan delivered as part of Milestone 2 where the opening hours were miscalculated, and only provided for a half-hour extra per day. The application had promised 1.5 hours extra per day.

5.11 The assessment of milestone reports was made more difficult than necessary because there were no specified formats for all reports. In some projects, but not all, project officers emailed recipients shortly after the agreement was executed to remind them of the required contents and dates of the first three milestones. An alternative approach would have been to develop templates for each of the milestone reports (as well as the templates for relevant deliverables within those reports).[179] In practice, the various deliverables were often sent in by recipients through multiple emails, without specific endorsement (that is, a statement that a responsible officer attests to their accuracy and completeness), and with attachments that were often not dated. In these circumstances, it is more difficult for the project officer to assess the adequacy of the submitted materials.

[179] Such a template could have clearly specified the project, milestone number, amount claimed, deliverables required and presented (in attachments as necessary) a statement of accuracy and completeness, and required a signature by a responsible officer.

Monitoring the timeliness of reporting

5.12 Timely reporting is facilitated by project officers providing reminders, ideally before the milestone is due. The reminder process for the PCIG was variable, as there was no established process for follow-up. This was left to project officers, with some officers emailing multiple advance reminders and others providing no reminder until after the due date. There may, however, have been oral reminders given by project officers that were not recorded. An established follow-up process would have helped DoHA project officers to remind grant recipients before the due date of milestones rather than afterwards.[180],[181]

5.13 There was no apparent nomination of recipients as 'high risk' if they had established a pattern of late reporting. Although most projects were reasonably timely, some ran consistently late. Such a practice could be an opportunity for improvement in the 2011 round.

Issues regarding the construction of funded infrastructure

5.14 Two key issues regarding DoHA's monitoring of PCIG project reporting were: the consistency of project plans with the corresponding grant applications and funding agreements; and whether project construction was proceeding in accordance with timelines set out in relevant funding agreements.

Consistency of project plans with grant applications and funding agreements

5.15 A deliverable under an early milestone (usually Milestone 2) was the detailed project plan. The project plan is a key deliverable, particularly as some executed funding agreements were imprecise in the description of the project and its aims.

[180] Electronic calendars could have been used by DoHA officers to assist in reminding grant recipients to provide reports before the due date of milestones.

[181] DoHA advised that DIGBI, the database used to assist in the administration of the PCIG and GP Super Clinics programs, has been modified to 'prompt officers to remind applicants of upcoming deliverables and milestones. This [gives] project officers flexibility to use the tool as required if they felt it useful in managing particular projects'.

5.16 The ANAO compared the commitments in the project plans with those in application forms, examining the construction, service and training commitments. In most cases, the plans were consistent with initial commitments in the application forms. Of the 23 cases where a project plan had been produced[182], 19 were consistent with the application and funding agreement, and a further three had more detail in the project plan than the agreement. One project plan was not precisely expressed, but was broadly consistent with the application and funding agreement.

5.17 Once the project plan was in place, the sample identified no cases, either recorded on file or through site inspections of 14 projects, of the project failing to deliver the required infrastructure.

5.18 Some project costs had changed between the grant application and the project plan. The largest proportional increase was from $83 000 to $147 000 due to the applicant requesting a change to the project scope, floor plan and budget. This change was approved and covered by an increase in the grant amount, although, due to an apparent oversight in the assessment process, the project had already been shortlisted to receive funding of $150 000, rather than $83 000. Otherwise, the largest changes were around 30 per cent, and included both price increases and decreases. In no instance did the sample include a price increase that placed the project at risk of not proceeding, as the proponent was willing to cover the cost increases in those cases where the grant amount was not increased.

Timeliness achieved compared with that planned

5.19 PCIG 2010 round projects generally proceeded through construction in a reasonably timely fashion, with some completing the capital works prior to the planned schedule. For example, by Milestone 4 (the three-month progress report on construction), the average delay in the sample for those projects that had delivered that milestone was nine calendar days, varying from 38 days ahead of schedule to 42 days behind. By Milestone 5 (the six-month progress report), the average delay was 15 days, varying from 74 days ahead of schedule to 102 days behind. As discussed previously, some projects were delayed considerably in either the commencement of, or the construction of the project, for reasons that included:

[182] A small number of projects had not advanced to the stage where a project plan was yet required.

- delays in the planning stages, such as not having approvals in place, not testing the market by receiving bids or needing to resolve tenure issues; and
- delays in the construction stage, due to problems with the builder, unexpected design issues or bad weather.

5.20 In the sample of cases reviewed, no significant delays were caused by DoHA. In no sampled case had DoHA cancelled the grant after executing a funding agreement.

Planning delays

5.21 Many applicants were fully prepared, having obtained plans, council approvals and quotes, before being awarded the grant, and were able to proceed quickly to construction. Some other applicants were partly prepared, and required moderate periods for project mobilisation to cover these activities. A third group seemed to be minimally prepared, leading to considerable delays in obtaining plans, council approvals and quotes.

5.22 In early communications with shortlisted grant applicants, DoHA project officers sometimes mentioned that it might be reasonable for applicants to obtain formal quotes for the building activity. It would have assisted some applicants if DoHA had more explicitly explained the steps the applicant might usefully take before the funding agreement was concluded in order to expedite the overall project—such as preparing plans, seeking council approval of the plans and obtaining quotes. DoHA has advised that it is aware that considerable care is required in any such discussions between its officials and applicants about options that are open to applicants prior to executing funding agreements, so that the department does not indicate a financial commitment to a project before it receives the necessary approvals.[183]

Construction delays

5.23 In some instances, severe weather caused delays and on other occasions there were problems such as the builder becoming ill. Sometimes building issues were discovered, such as a planned lift not being able to be installed safely, and a different design solution was needed. Ideally, the possibility of

[183] To mitigate this risk, the department's correspondence with applicants prior to the execution of a funding agreement asks applicants not to commence work until they receive an executed copy of the agreement.

such delays should have been included in the risk management plan. Overall, construction delays taken across the sample of projects were not major.

Dealing with delays and problems

5.24 DoHA's project officers had limited means to expedite progress or deal with delays and, in the sample reviewed, all project delays were accepted and recognised through amending the funding agreement.

5.25 Significant delays were recognised through the execution of a formal variation to the funding agreement. 'Significant' was a matter for judgement, but any delay greater than about a week generally led to a variation.

5.26 The primary intent of concluding variations seemed to be to return the project to compliance with the agreement. There was little attempt made, or capacity, to constrain the extent of delay, or to negotiate with the recipient in order to try to return the overall schedule to something near that originally agreed.

Payments against milestones and financial acquittals

5.27 Funding agreements provided for payment within 28 days of the acceptance of a milestone report. Based on the sampled projects, the assessment by the project officer together with acceptance by the delegate was normally prompt, and never took longer than about ten days. There were some occasions where recipients, having recently had their milestone reports approved, complained that they had not received payments. In such cases, project officers generally drew attention to the 28 day provision in the funding agreement. There would have been benefit in DoHA emphasising this provision to recipients in the letter of acceptance for the first funded milestone.

5.28 Some recipient felt there was a problem where payments may not be received for 28 days, as builders required early payment. These recipients mistakenly believed that the grant conditions did not allow them to pay the builder first and later receive reimbursement from grant funds. On some occasions, recipients requested expedited payments, normally due to payments to builders falling due, frequently seven days from their date of invoice. On each occasion in the sample where this was requested, it was allowed. It is not clear that all recipients were aware that they could request expedited payment.

Financial acquittal of projects

5.29 Under the grant funding agreements, recipients were required to provide DoHA with certain financial reports relating to grant funding. Two main types of reports were:

- a 'statement of funds', which was required to accompany progress and final reports on construction works; and
- an annual financial report, which was required to be submitted by 30 October where grant funding was received or expended in the previous financial year.

5.30 The required content of these reports was set out in the funding agreements. For both types of reports, recipients were required to provide a detailed statement of incomings and outgoings in relation to the funding provided:

- for the 'statement of funds' reports, this had to be accompanied by a statement by a director of the organisation certifying that the funds were administered in accordance with the funding agreement; and
- for the end of financial year reports, a Statutory Declaration by a director of the organisation was required to accompany the report, stating that all funds were administered in accordance with the project budget and the funding agreement, and that all of the terms and conditions of the agreement were complied with.[184]

5.31 As for other types of project milestone reporting under the PCIG program, the financial reports submitted by recipients were assessed by DoHA project officers and advice provided to the DoHA delegate as to whether the reports should be approved as meeting the relevant obligations under the funding agreement.

5.32 The ANAO examined the financial reports submitted by the 19 funding recipients in the sample, as well as the advice provided to the DoHA delegate in the reports.[185] Of the 19 reports examined, the requirements set out in the

[184] Funding recipients in Stream B and Stream C had to meet some additional financial reporting requirements. Most notably, these recipients were required to provide an auditor's report on the end of year financial reports submitted.

[185] Some recipients in the sample had not received funding in the 2010–11 financial year, or construction had not proceeded to a stage to require progress reporting, and so they had not been required to submit any funding reports as of early December 2011.

funding agreements were not entirely met in seven cases (or 37 per cent), either because of omissions in the relevant documentation or delays in submitting some key materials.

5.33 The omitted or delayed materials were in some cases significant, including the lack of auditor's reports to accompany the financial reports for some Stream B and C recipients, and the lack of a detailed report relating to the recipient of the Commonwealth funds. In such cases, DoHA project officers contacted recipients to request that they supply the necessary documentation, which was subsequently received, thereby satisfying the financial reporting requirements.

Conclusion

5.34 DoHA established a monitoring framework to inform the administration of PCIG grants through to the completion of infrastructure works. Project reporting had regard to the principle of proportionality in the *Commonwealth Grant Guidelines*, with simple projects requiring less frequent and detailed reports to DoHA. Milestone progress reports provided by recipients, as required by the relevant funding agreements, have generally contained relevant and sufficiently detailed information to effectively monitor progress and are in some cases used to trigger progress payments. DoHA's assessment of these milestone reports has been generally sound, although the department has adopted a 'light touch' to managing project delays and has tended to revise the existing funding agreements to accommodate delays rather than working more proactively with grant recipients to avoid or minimise delays. However, the ANAO's examination of a sample of executed fund agreements over October and November 2011 indicated that such delays had not emerged as a significant problem across the program.

5.35 DoHA's administration of project financial reports has also been sound. That said, there were instances of omissions in, or delays in receiving, financial reports, which required follow-up by DoHA. This suggests that DoHA will need to carefully monitor such reporting in order to continue to provide assurance that Commonwealth funds have been used appropriately.

6. Developing Key Performance Indicators and Evaluating Program Performance

This chapter examines DoHA's development and implementation of the key performance indicator (KPI) reporting framework for the PCIG program, and DoHA's plans for evaluating program performance.

Introduction

6.1 The Parliament and the public's consideration of a program's performance, in relation to impact and cost effectiveness, rely heavily on accurate and appropriate performance information. Adequate performance information, particularly in relation to program effectiveness, allows managers to provide sound advice on the appropriateness, success, shortcomings and/or future directions of programs. This information allows for informed decisions to be made on the allocation and use of program resources.[186]

6.2 Well-designed KPIs can provide valuable information on the effectiveness of programs in achieving the objectives in support of desired outcomes (in the case of grants programs these are the intended results, impacts or actions of the grants on the Australian community). This is done within the context of the current Outcomes and Programs Framework developed by the Department of Finance and Deregulation in 2009. A key requirement is entity reporting designed to clearly demonstrate achievement against pre-defined program objectives.

6.3 The *Commonwealth Grant Guidelines* also provide that program design and planning should have regard to establishing performance and evaluation measures[187], and strongly encourage agencies to adopt a performance framework focused on the delivery of government outcomes.[188]

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[186] ANAO Audit Report No.5 2011−12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 13.

[187] Department of Finance and Deregulation, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, June 2009, p. 15.

[188] An 'outcomes orientation' is one of the seven key principles for grants administration, as discussed in the *Commonwealth Grant Guidelines*, pp. 17-18.

6.4 Determining KPIs at an early stage of program design supports the development of effective processes, including Invitation to Apply documentation, that will facilitate the collection and reporting of quality performance information. It is important that relevant Invitation to Apply documentation informs prospective applicants of the basis on which project outcomes will be measured, their associated reporting obligations, and the importance of these obligations.

6.5 This chapter examines KPIs in the PCIG context including:

- processes to develop the program's KPIs;
- the design of the KPIs, referenced against the SMART criteria;
- the adequacy of KPI reporting to date; and
- DoHA's plans for evaluating program performance.

Development of program KPIs

6.6 No quantitative or qualitative KPIs are set out for the PCIG program outcomes in the *2011–12 DoHA Portfolio Budget Statements* (PBS).[189] The PBS contains two main types of 'output' deliverables for the PCIG program: that the second round of the program is underway by 1 January 2012, and that specified numbers of grants will be awarded in each of the years 2010–11 to 2012–13.[190]

6.7 As highlighted in Chapter 1, the 2010 PCIG Guidelines were prepared under significant time pressure in order to be presented to Cabinet's Expenditure Review Committee on 22 June 2010. Besides the Minister's office, input on the draft guidelines was received from DoHA's Program Funding and Procurement Service and the Department of Finance and Deregulation (Finance). The initial versions of the draft guidelines did not include a performance reporting section or KPIs.[191]

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[189] By comparison, the GP Super Clinics program sets a quantitative KPI, namely the number of super clinics that commence in each of the years from 2010–11 to 2014–15.

[190] The target in the 2010–11 PBS was 200 grants to be awarded in 2010–11. The target for 2011–12 was reduced to 90 in the 2011–12 PBS, to account for the impacts of natural disasters that reduced the availability of construction work to undertake small-scale infrastructure projects. In the end, 137 grants were awarded in 2010–11.

[191] The first KPIs (B – G), were inserted under performance and reporting procedures on 18 June 2010. KPI A was added on 21 June 2010 then at some point deleted and was not included in the KPIs examined by the ANAO in final reports or their associated funding agreements.

6.8 Following the inclusion of KPIs (among other matters) in the draft Guidelines, a revised version was sent to Finance. In its emailed response of 21 June 2010, Finance commented that:

> The key performance indicators are not quantifiable, so it will be difficult to measure performance against the indicators, particularly once the clinics are operational.
>
> In addition, it is likely that the ongoing, six-monthly reports will not change during the course of the reporting periods…are performance reports required to be delivered for the entire period that services are required to be provided – this should be explicitly noted within the document.

6.9 A teleconference was held on 21 June 2010 with Finance to discuss its advice, which covered a range of matters in addition to KPIs. While DoHA was not able to supply any record of this teleconference, no changes were made to the KPIs as a result of the discussions. The KPIs contained in the agreed guidelines[192] in essence replicated the wording of each program objective.

Analysis of program KPIs

6.10 The 'SMART' criteria provide a useful guide for the development of KPIs as statements of the pre-defined and expected impacts of the program.[193]These criteria are:

- specific—to focus on results that can be attributed to the particular intervention/program;
- measurable—include quantifiable units or targets that can be readily compared over time;
- achievable—realistic when compared with baseline performance and the resources to be made available;
- relevant—embody a direct link between the program's objective and the respective effectiveness KPI; and
- timed—include specific timeframes for completion.

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[192] The 2011 PCIG Guidelines contained no material changes to KPI or associated reporting over those contained in the 2010 guidelines. KPI reporting obligations are being reduced, however, as a result of amending the standard PCIG funding agreement template.

[193] ANAO Audit Report No.5 2011−12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 15.

6.11 In advice to entities on developing KPIs, Finance has recommended that entities use both quantitative and qualitative KPIs to measure program performance and, if a program's objectives are quantitative in nature, agencies are encouraged to consider the use of targets. To the extent that this advice promotes the use of quantitative approaches and targets, it aligns with the 'measurable' characteristic of the SMART criteria.

6.12 As shown in Table 6.1, the ANAO's analysis found that the PCIG KPIs consistently met the achievable[194] and relevant criteria but did not meet the specific, measurable or timed criteria. This is consistent with the comments on the draft guidelines provided to DoHA by Finance.

Table 6.1

Analysis of KPIs using SMART criteria

Analysis of the PCIG KPIs, using the SMART criteria
KPI A Achieve the identified capital works in line with project Milestones ***Is it specific****?* Yes ***Is it measurable****?* Yes ***Is it timed?*** Yes NOTE: KPI A as detailed here does not appear in any Final Reports, Minutes or Funding Agreements examined by the ANAO. This omission of this KPI A resulted in KPI B becoming A, and so on, in the documents examined, with the total KPIs reported being A – G, not A – H (C Stream).
KPI B Describe the upgraded or extended facilities supported by the Funding ***Is it specific?*** No—description could elicit (and has) a wide range of responses. ***Is it measurable?*** No—description could elicit (and has) a wide range of responses. ***Is it timed?*** No, but information on this would potentially have been captured through KPI A (if it had been included).
KPI C Detail the number of additional general practitioners, nurses and allied health professionals and / or students on clinical placements ***Is it specific?*** Not specific enough, too much room for vague answers that don't specify which discipline or additional service provided, for example, increase in GP numbers resulting in x hours per week of increased service. ***Is it measurable?*** Again too much room for vague answers that don't specify hours per week or the number of additional resources. ***Is it timed?*** No time frame as to either hours per week, or proposed staffing over time.

[194] Given the non-specific nature of the KPIs, meeting the 'achievable' criterion was not difficult.

Analysis of the PCIG KPIs, using the SMART criteria
KPI D Identify the local community health needs ***Is it specific?*** The KPI required more information to be specific. Relevant questions include: how did you assess local community health needs? What stakeholders were involved? Were associations such as the Australian Medical Association and GP groups approached? Were resources such as the Australian Bureau of Statistics and the Australian Institute of Health and Welfare utilised? ***Is it measurable?*** The only way of measuring 'identify', is whether it was done or not, which provides little useful information. ***Is it timed****?* There is no indication whether this assessment of local community health needs is to be over the last 5 to 10 years, a current snap shot, or based on predicted population over the next 5 to 10 years. There was also no target of continuing to monitor and respond to local community health needs.
KPI E Identify the new or additional health services provided to meet these health needs including preventative activities and chronic disease management services ***Is it specific?*** Possible to answer specifically but easier to answer vaguely. The example provided did not contain specific information such as specific services to address specific health needs. ***Is it measurable?*** See comment on KPI C regarding hours of new services. ***Is it timed****?* Again, this information was not requested in the KPI nor elicited. It would also have been useful to ask whether the recipient planned to continue offering these services and how that would occur.
KPI F Detail the processes introduced to support team-based approaches to the delivery of care at the Facility ***Is it specific?*** 'Processes' could elicit specific information but allows vague answers, not adequately addressing 'team-based approaches to the delivery of care'. More support through examples containing hours and frequency of team-based activities may have helped. ***Is it measurable****?* Again, does not request numbers that would provide comparable data. ***Is it timed?*** Possible but not achieved, there is no timeframe in the KPI This data could be trended if presented at each reporting period.
KPI G Detail the extended hours of service introduced following completion of the capital works project ***Is it specific?*** Reasonably, though could have been improved by 'specify that the extended hours' and including 'solely or mainly as a result of the grant'. ***Is it measurable?*** *Yes* ***Is it timed?*** Should be timed to gain trends compared with baseline, that is, prior to receiving the grant, on its completion and at each reporting stage.
KPI H Describe the new or enhanced clinical training facilities ***Is it specific?*** This is reasonably specific, although it could have been improved by specifying that the facilities were able to offer clinical training solely or mainly as a result of the grant. ***Is it measurable?*** It would be useful to require details on how (including the number and types of persons trained using them) the facilities have been used during the reporting period. ***Is it timed?*** No. Answers did not provide data about time frames reached or proposed.
Achievable and Relevant: All KPIs met these criteria

Source: KPIs: PCIG Guidelines 2010.

6.13 As the PCIG KPIs are specific, measurable and timed to only a limited extent, there is a risk that the reports to DoHA containing KPI reporting may provide only limited information as to the effectiveness of the PCIG program in improving access to integrated GP and primary healthcare services, as discussed below.

KPI reporting obligations

6.14 The 2010 PCIG Guidelines documented the broad reporting obligations of recipients during the construction and designated use period.[195] The guidelines indicate that KPI reporting is required as part of biannual 'operational phase' reporting—that is, starting from six months after the completion of construction.

6.15 In this regard, the department advised that it applied the better practice principle in the *Commonwealth Grant Guidelines* of proportionality when developing the funding agreements, to avoid overburdening applicants with unnecessary regulatory and reporting burden. In weighing up the relative risks, DoHA limited the applicants' continued reporting burden to the point where the department was satisfied that construction was complete and the services were operational.[196]

6.16 DoHA provided recipients with a Final Report template to assist them in meeting their reporting obligations. In some but not all cases, this template included a section on KPI reporting. The ANAO examined the KPI reporting in the 17 Final Reports that provided that information.[197] This analysis found that while many reports containing KPIs included reasonably detailed responses, the information provided in the reports did not generally facilitate the objective evaluation and assessment of individual projects. As a result, any aggregated PCIG KPI reporting based on the information obtained in these reports is unlikely to provide quantitative information regarding the achievement of program outcomes.

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[195] The designated use or operational phases are two years after the completion of construction for Stream A, three years for Stream B and five years for Stream C.

[196] The department advised the ANAO that in weighing up the risks of not requiring detailed ongoing reporting by grant recipients, it recognised that 'these practices are established community based businesses that historically have a low likelihood of bankruptcy ' and that 'established clinics with a full patient load are unlikely to suddenly close shop'.

[197] None of the biannual operational phase reports were provided at the time of the audit fieldwork.

6.17 Due to the timing of the 2011 round, it was necessary for DoHA to develop the 2011 Guidelines prior to KPI reporting being available from the 2010 PCIG round, which precluded any learning that may have been gained from analysing the KPI reporting from the previous round. DoHA did not use the opportunity to incorporate advice received from Finance regarding KPI design in the PCIG 2010 round (as discussed in paragraph 6.8) in the development of the 2011 guidelines.

6.18 Subsequently, however, DoHA advised that it is refining the existing KPIs for future reporting purposes. These refinements are to be 'translated into the draft operational phase report templates that all applicants are required to report upon'. There would be merit in this revision taking into account the SMART criteria discussed earlier.

DoHA's program evaluation strategy

6.19 The evaluation of program performance provides accountability and transparency, and assists to improve program design. In evaluating program performance, it is important that a strategy is capable of determining the extent to which programs make positive contributions to specified outcomes. [198]

6.20 DoHA advised that it has incorporated an evaluation framework into the development of the program through an articulation of the program objectives and associated outcomes, matching key performance indicators, as well as various reporting templates. However, the department has not yet developed a formal evaluation plan or strategy for the PCIG program. The original minute, through which the commencement of the 2010 round was approved, stated:[199]

> The successful applicants will be expected to participate in the national evaluation of the GP Super Clinics program. The purpose of the evaluation will be to evaluate the performance of the program aims and objectives.

6.21 The PCIG funding agreements for both the 2010 and 2011 rounds require grant recipients to 'participate at [their] own cost' in any project and program evaluations 'as may reasonably be required by the Commonwealth'.

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[198] ANAO, Better Practice Guide—*Implementing Better Practice Grants Administration*, 2010, Canberra, p. 98. See also more generally, Department of Finance and Deregulation, *Performance Information and Indicators*, 2010.

[199] DoHA, Minute to the First Assistant Secretary—*Funding Plan for the GP Super Clinics Program: Primary Care Infrastructure Grants*, 25 June 2010.

Further, the minute through which the commencement of the 2011 round was approved stated that recipients would be expected to participate in an evaluation of their project, and that such 'project level evaluations could feed into an evaluation of the program…at a later stage. This will be the subject of a separate minute.' As at April 2012, no separate minute had been prepared advising of a program evaluation.

6.22 In the context of the department's plan to refine the existing KPIs, there would be benefit in DoHA considering the contribution that revised indicators could make to future evaluation activity, such as the extent to which they address the overall effectiveness of the program against its key objectives and outcomes—including improved access to integrated primary care services—and are not limited to the delivery of physical infrastructure. There would also be benefit in undertaking focused evaluation activity to assess program effectiveness, drawing on available information and reporting processes.

Recommendation No.2

6.23 Recognising that the allocation of grants under the PCIG program is largely complete, the ANAO recommends that DoHA undertake focused evaluation activity to assess program effectiveness, drawing on available information and reporting mechanisms.

DoHA Response

6.24 Agreed.

Ian McPhee
Auditor-General

Canberra ACT
19 June 2012

Appendices

Appendix 1: The ANAO's sample of 2010 and 2011 PCIG applications

The ANAO's stratification of PCIG assessment outcomes

PCIG assessment outcomes
Shortlisted applications—applications that were offered a grant (subject to the negotiation of funding agreements) on the basis of the relevant stream's ranking list.
Minimum standard applications—applications that were assessed as suitable for funding, but were not shortlisted for funding due to demand outstripping available program funds. The minimum standard set by DoHA to be deemed suitable for funding was a minimum score of 50 per cent against each relevant program objective.
Did not meet minimum standards—applications that were assessed as scoring below the 50 per cent standard.
Non-compliant and/or ineligible applications—applications that did not meet the mandatory requirements set by DoHA to be considered for assessment.

Source: ANAO analysis of DoHA assessment of PCIG applications.

For the 2010 PCIG program a targeted sample of 108 (18 per cent of 593) grant applications were selected, covering each of the three funding streams. A breakdown of the ANAO's sample for both grant rounds is identified in the tables below.

The ANAO's sample of 2010 PCIG program grant applications

Classification of grants	Stream A <$150 000	Stream B $150 000 to $300 000	Stream C $300 000 to $500 000	Total
Shortlisted applications	20	11	11	42
Minimum standard applications	7	7	20	34
Did not meet minimum standards	6	6	5	17
Non-compliant / ineligible applications	5	5	5	15
Total	38 (18% of 207 applications)	29 (21% of 139 applications)	41 (17% of 247 applications)	108 (18% of 593 applications)

Source: ANAO.

The ANAO's sample of 2011 PCIG program grant applications

Classification of grants	Stream A <$150 000	Stream B $150 000 to $300 000	Stream C $300 000 to $500 000	Total
Shortlisted applications	16	10	13	39
Minimum standard applications	7	7	16	30
Did not meet minimum standards	3	4	4	11
Non-compliant / ineligible applications	8	6	11	25
Total	34 (24% of 141 applications)	27 (29% of 93 applications)	44 (24% of 184 applications)	105 (25% of 418 applications)

Source: ANAO.

For comparative purposes, an initial random sample of 45 (11 per cent of 418) 2011 PCIG program application assessments was also examined. At the completion of the ANAO's review of the sample, the sample of 2011 PCIG program applications was increased to a total of 105 applications (25 per cent of all applications). This targeted (non-statistical) expanded sample was used to gain a better understanding of the impact of changes to DoHA's approach for completing 2011 PCIG program applications, such as different requirements for grant applications (amendments to the program guidelines) the establishment of a Compliance Committee, changes in assessment staff composition, and amendments to quality assurance review processes.

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