

Building Better Cities

Department of Transport and Regional Development

Performance Audit

Tabled 8 October 1996

Audit Report No. 9 1996-97

Abbreviations / Glossary

ANAO	Australian National Audit Office
BCP	Building Better Cities Program
BCP Mk.I	Building Better Cities Program Mark I
BCP Mk.II	Building Better Cities Program Mark II
CSHA	Commonwealth-State Housing Agreement
DH&RD	Department of Housing and Regional Development
DT&RD	Department of Transport and Regional Development
ESD	Ecologically Sustainable Development
GPP	General Purpose (capital) Program
JCPA	Joint Committee of Public Accounts
NCPA	National Capital Planning Authority
PMB	Program Management and Budgeting
SPP	Specific Purpose Payment

Summary

Building Better Cities

1. The Building Better Cities Program (BCP) began in 1991. It was the first Commonwealth venture for some years into urban development. It was also the first serious attempt to coordinate program development and delivery at the different levels of government within a Program Management and Budgeting (PMB) structure. BCP was a General Purpose Capital Assistance program that introduced management elements similar to Commonwealth Specific Purpose Payments programs. For these reasons BCP has important lessons for future programs of Commonwealth assistance to States and Territories.
2. BCP dealt with improving social justice, fostering micro-economic and institutional reform, improving the environment, and demonstrating more effective coordination between governments. Commonwealth funding contributed to improvements in urban areas. These included redeveloping inner city precincts, constructing and refurbishing housing, building and upgrading railways and transport interchanges, new light rail systems, new water management infrastructure, as well as developing under-used government land.
3. All construction and development activity was carried out by the States and Territories, which also contributed financially to the program. The developments proposed and management arrangements for the program were part of agreements between the Commonwealth and State and Territory Governments.
4. A Departmental evaluation of the program in 1995 found that the consensus of those consulted was that BCP was an effective and appropriate mechanism for the Commonwealth to encourage integrated planning and infrastructure provision by other levels of government. However, more conclusive assessment will not be possible until some years after the completion of BCP area strategies.
5. The first phase of the program will be completed in 1997. A second phase (BCP Mk.II) was approved in the 1995 Budget. In March 1996 responsibility for the program was transferred to the new Transport and Regional Development Portfolio. The 1996 Budget provided funding for existing BCP contractual commitments that were expected to be completed by the end of 1997-98.
6. The Department advised ANAO that on 17 July 1996 the Minister for Transport and Regional Development announced the abolition of the Regional Development Division, which had administered the program. The Department also advised that this will necessitate new administrative arrangements for completion of the program and may limit the extent of demonstration reporting upon program completion.

The reasons for this audit

7. ANAO has a continuing interest in Commonwealth-State programs. BCP management arrangements had innovative elements, including a focus on measuring outcomes that preceded similar recommendations of the Joint Committee of Public Accounts in its Report 342 *The Administration of Specific Purpose Payments; A Focus on Outcomes* of November 1995. BCP also included accountability elements additional to those normally

found in capital assistance programs.

8. The program was a material element of the functions of the former Housing and Regional Development portfolio, with the Commonwealth contributing \$816 million of a total expected joint cost of \$2512 million.

The objectives of the audit

9. The audit examined the Commonwealth's management of BCP to identify areas where improvement was needed and where lessons learned from BCP could be useful in other programs.

Audit conclusions

10. The audit concluded that the program had been well managed, particularly in recognising and controlling financial risk to the Commonwealth. Most BCP construction and development strategies had been substantially completed as planned. However, baseline information on urban factors at which the program was directed had not been established, and there was very little measurement of change or improvement in these factors. Consequently, it is not possible to assess in outcome terms whether BCP has achieved its objectives. The ANAO has recommended that action be taken to develop information about the outcomes achieved with a view to the Department reporting to Parliament.

11. In other respects, BCP management through output and progress reporting provided effective Commonwealth control of the program without detailed accounting for program inputs. A number of features of the BCP model, and related ANAO findings, merit consideration as points of better management practice in the design of similar programs.

Key Findings

Managing and monitoring the program

12. Financial and budget management arrangements for BCP were effective in controlling financial risks to the Commonwealth. The program is likely to be delivered within budget.

13. The development and delivery of BCP infrastructure between the Commonwealth and States was effective and met the aim of the program to demonstrate better coordination between levels of government. However, Commonwealth monitoring of State BCP activities depended on liaison with State agencies and the level and regularity of these contacts varied. The BCP Commonwealth-State agreements did not guarantee the Commonwealth a role on State coordinating bodies and access to BCP sites and information. The Department advised the ANAO that it had never been denied access to any BCP site on request.

14. In line with normal capital grant arrangements, the BCP agreements did not require financial acquittal reporting or expenditure certification by States and Territories. Further, the annual financial statements of State agencies involved in BCP did not separately disclose expenditure of Commonwealth funds and State contributions to the program. Consequently, little use could be made of these reports for monitoring by the Commonwealth.

15. Similarly, the agreements did not require the reporting of promised State contributions, focusing instead on outputs and outcomes measures. To the extent possible, the Commonwealth monitored State financial commitments to the program but there were limits on the effectiveness of this activity. ANAO noted an instance where confusion in the terms of a promised contribution led to doubts not only about whether a State had made a particular contribution agreed with the Commonwealth but also about the value of that contribution.

16. States and Territories reported progress annually, mainly on milestones in infrastructure development. There were problems with the timeliness of these reports in relation to the Commonwealth Budget process, exacerbated by changes in the timing of Commonwealth Budgets and additional complexities arising from State Budget and reporting processes. Progress reporting was effective but some progress measures of an intangible nature could have been excluded to the benefit of a more tightly focused process.

Measuring program performance

17. The measurement of program performance was a key factor in this program under which Commonwealth urban development objectives were pursued through agreements that amounted to a series of outcome based contracts with States and Territories. The focus on outcomes was intended to form a basis for accountability to the Parliament and much of the accountability to the Commonwealth by States and Territories.

18. The Commonwealth-State BCP agreements outlined many expected outcomes of the program for specific development strategies and overall. These related to achievements in, for example, accelerating inner city growth and reducing demand for more outer suburban development, reducing aggregate expenditure on housing and urban infrastructure and improving the utilisation of urban land and infrastructure.

19. There was, however, little measurement of BCP outcomes. Without this, it was not possible to determine whether BCP achieved its intended aims and whether the innovative model of program coordination and delivery had succeeded.

20. The long term nature of many of the outcomes sought and the relatively short time over which BCP was implemented characterised the program. In light of this, ANAO considers that there were significant performance omissions in a program expressly concerned with outcomes and with measuring and reporting them, including:

- national performance indicators that would have provided an impetus and a strategic basis for program performance measurement;
- the recital of outcomes in BCP agreements, without any specification of appropriate qualitative and quantitative measures; and
- the omission of reference to base line information concerning those urban elements the program sought to improve.

We have recommended attention to introducing better outcomes measurement for the current program and for BCP Mk.II.

21. Further, the BCP agreements did not include a practical framework in which outcomes

and achievements could be measured. In many instances, there was no specific definition of measures that reflected the Commonwealth's objectives, for example, for reductions in the costs of housing development and construction, increased housing affordability, increases in the usage of urban infrastructure and improvements in urban water and air quality. Agreed data on starting points against which achievements could be measured was also lacking, along with any methods by which appropriate statistics could be developed.

22. Many of the urban factors at which BCP was directed may change over a longer term than the five year period in which BCP has been implemented to date. Consequently, measuring changes in these factors may not be a useful approach to reporting and accountability during such a short term. The agreements, however, clearly state that changes in agreed outcomes are a major element in the performance of the program.

23. Current BCP agreements will expire with the completion of implementation in 1996-97. The obligation of States and Territories to report outcomes will end with those agreements. The ANAO has recommended that action be taken in the remaining life of the program to negotiate measurement of the outcomes of the developments funded under BCP against expectations, even if those outcomes only occur in future years.

24. The Department has advised that a demonstration component of the program was designed as one of the principal mechanisms for measuring performance and reporting on outcomes. Discussions with States are continuing to confirm arrangements for demonstration reporting.

Better practice

25. The BCP was an important addition to Commonwealth-State financial assistance models. While it was a general purpose capital assistance program, BCP payments to States and Territories were predicated on the achievement and reporting of outcomes and progress in implementation. Adopting a similar outcomes oriented approach is under consideration for other Commonwealth-State programs as a means of reducing duplication of administration with improved accountability. Report 342 of the Joint Committee of Public Accounts supported the wider use of the outcomes approach.

26. Reporting program outcomes is dependent on defining the outcomes required and how they are to be measured. The experience with BCP suggests that effective outcomes reporting in any program depends on developing appropriate outcome measures and performance indicators, a data collection and reporting regime, and the routine analysis of data. For any similar program where performance measurement is a central requirement, program design must define outcomes in measurable terms and negotiate an appropriate data collection and reporting regime. The BCP experience suggests that this is not an easy process. During the development of the program the emphasis is on getting it up and running, and time and resources may not be available to design outcomes definitions and measurement arrangements. These steps are, however, essential in programs where specific outcomes are sought.

27. In conducting a performance audit of BCP, the ANAO had the opportunity to consider the practical features of managing a program in which outputs and outcomes were important and delivery was by another level of government than that providing the funds. Some of these features are sufficiently important to merit consideration in the design of

future Commonwealth programs. These are set out below. It should be noted that not all of these issues arose directly during the BCP audit. Some of those that did are included in the following comments. The suggested approaches are based on good practice that ANAO observed in the management of BCP.

Management by outcomes

- The number of program objectives should be realistic and achievable.
- National, State and/or project performance indicators are required to enable effective reporting of performance at all levels.
- Agreements between the Commonwealth and States or Territories for an outcome-oriented program should include a strong focus on program outcomes and their measurement. This should include statements of agreed outcomes, together with agreed indicators of performance, baseline data on the factors that the program addresses and a strategy for the collection of data on changes in those factors. Such outcome measures may be required after specific Commonwealth program funding has ceased.

Implementation

- Where outcomes are not measurable in the short term (such as environmental improvements or effects on long term community health), decisions on progress and continued funding may need to be determined on the basis of output measures (such as milestones in construction or the delivery of services). Defining these measures is an important function of the relevant agreements.

Costs and resources

- Imposing a fixed total cost, and agreeing on fixed levels of Commonwealth project funding has benefits in minimising the financial risk exposure of the Commonwealth and provides an incentive to States and Territories to control costs and deliver a program efficiently. A consequence of this approach is that States and Territories rather than the Commonwealth may benefit from efficiency savings.
- Where outcomes measures are weak, it is especially important that program financial inputs, as well as program outputs, are measured and monitored. That is because input measures contribute to value for money assessments.

Accountability

- In managing jointly funded programs, Commonwealth managers should seek arrangements that promote disclosure by States and Territories of the expenditure of Commonwealth funding as well as of their own contributions. This disclosure could take several forms, such as through agency general purpose financial statements or through specific purpose financial statements.
- Specific purpose financial statements and certifications should only be sought where they add value or reduce a significant risk to the Commonwealth.
- Reports by States and Territories, whether on progress or outcomes, should be

timely. Reports should be available at the time of the preparation of the Commonwealth Budget to enable effective and timely assessment of program results and to allow reporting of program performance to the Commonwealth Parliament. For outcomes and performance reporting, a period other than the normal financial year may be an appropriate base.

Monitoring and evaluation

- Specific provisions should be included in agreements to recognise Commonwealth needs for monitoring the implementation of programs and to authorise Commonwealth program managers to seek specific reports and information on programs from State or Territory agencies.
- The extent to which monitoring and reporting takes place should reflect the level of risk to Commonwealth interests if delivery of the program occurs other than as planned. Risks should be identified and the necessary level of control put in place through the identification of outputs and outcomes and an appropriate reporting regimen.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph references and DT&RD's abbreviated responses. More detailed responses and any ANAO comments are shown in the body of the report. The ANAO considers that DT&RD should give priority to Recommendations Nos.3, 4 and 6.

Recommendation No. 1 Para.2.18	<p>The ANAO <i>recommends</i> that DT&RD, in developing arrangements for BCP Mk.II:</p> <ul style="list-style-type: none">• develop a system of agency to agency reporting that will enable timely delivery of reports by States and Territories for Commonwealth budgeting and accountability purposes; and• consider whether the adoption of a reporting year other than the July to June period would assist timely and informative reporting to the Parliament.
Recommendation No. 2 Para.2.23	<p>Response: DT&RD advised that the framework for BCP Mk.II would include a streamlined reporting method in which a lead State or Territory agency would be responsible for reporting directly to the Commonwealth.</p> <p>The ANAO <i>recommends</i> that DT&RD, in developing arrangements for BCP Mk.II, continue to identify in agreed project descriptions progress points and milestones that reflect tangible achievements in major elements of projects and ensure that States and Territories focus on those achievements in reports to the Commonwealth.</p> <p>Response: The Department agrees with the recommendation. But it also considers that arrangements with States and Territories should include agreements on outcomes and suitable measures with which to monitor progress towards achieving these outcomes.</p>

The ANAO *recommends* that DT&RD, in developing arrangements for BCP Mk.II:

Recommendation
No. 3
Para. 3.20

- ensure that Commonwealth-State agreements and associated project descriptions and Area Strategies include definitions of appropriate and measurable outcomes as a basis for outcomes reporting;
- specify current values and baseline measures for urban, social and economic factors in which improvement or change is seen as an important program outcome; and
- agree, where possible, on the availability of data appropriate to outcomes measurement, on data sources to be used and how such information is to be reported.

Response: The Department agrees with this recommendation and, as noted in the report, this matter was addressed in the Performance Information Review conducted jointly with the Department of Finance which reported early in 1996.

Recommendation
No. 4
Para. 3.25

The ANAO *recommends* that, in setting up management arrangements for BCP Mk.II, DT&RD develop appropriate national performance indicators as a basis for enabling the measurement of outcomes at all levels in the program.

Response: The Department agrees with the recommendation.

The ANAO *recommends* that DT&RD, in the remaining period of operation of BCP Mk.I:

Recommendation
No. 5
Para. 3.30

- negotiate with States and Territories to define qualitative, quantitative and statistical indicators for the outcomes of all BCP Area Strategies funded to date; and
- develop and report to the Parliament information concerning whether BCP has achieved its outcomes and whether the BCP model was a successful method of program delivery.

Response: While the Department agrees with the recommendation, in line with findings from its own Performance Information Review, it is noted that, with the Government's decision to abolish the Regional Development Division and the Better Cities Program, administration of BCP now focuses on meeting outstanding liabilities alone, thus constraining the Department's capacity to act on this recommendation.

The ANAO *recommends* that DT&RD for BCP Mk.II:

Recommendation
No. 6
Para. 4.19

- determine the extent to which financial monitoring could be effectively conducted through the financial statements of State and Territory agencies receiving and/or expending Commonwealth funds; and
- obtain State and Territory agreement to disclosure of BCP finances in appropriately annotated State agency annual financial statements, or, if appropriate, in special purpose

financial statements.

Response: While the Department supports such a process, the efficiency of dealing on an ad-hoc basis at a program or Departmental level would lead to multiple standards. The Department believes that such agreements should be undertaken by negotiation between the various Commonwealth, State and Territory financial reporting coordination Departments to ensure minimal disruption to State financial reporting and auditing processes and uniformity of agreements between States, Territories and individual Commonwealth agencies.

1. Introduction

This Chapter provides the background to the audit including a description of the program, audit objectives and criteria, and an overall audit conclusion.

Building Better Cities

1.1 The Building Better Cities Program (BCP) was announced in the 1991 Budget. BCP was aimed at improving Australian cities through better infrastructure and services and was implemented by the Commonwealth in cooperation with States and Territories. The program was based on a series of Area Strategies, approved by the Commonwealth, under which funding was provided for integrated development programs in capital and regional cities. The program included, *inter alia*, public transport improvements, the renewal of inner city precincts, and the redevelopment of land under-utilised or no longer required by State and Commonwealth governments. Table 1 lists the 26 approved BCP Area Strategies in all States and Territories and gives brief indicative descriptions of the nature of the work undertaken in each area. Appendix 1 provides a more detailed example of Area Strategy objectives and work plans by summarising the approved Area Strategy for the Plenty Road area of Melbourne.

1.2 BCP was the first major Commonwealth venture into urban development for some years. It was conducted under Commonwealth-State agreements and through general Commonwealth powers to provide financial assistance to States and Territories for specific purposes. It involved no legislation other than appropriations in annual Appropriation Acts (No.2) under which payments to States and Territories are authorised.

1.3 The program was conducted as part of Commonwealth General Purpose Capital Assistance to the States. This form of assistance has, since 1991-92, consisted of two components:

- the Loan Council Capital Grants Program; and
- the Building Better Cities Program.

1.4 The conditions under which this form of assistance is provided to States and Territories differ from other arrangements for Commonwealth funding of specific programs. General purpose capital assistance is provided on an untied basis, with application of funds a matter for State and Territory decision. This contrasts with Specific Purpose Payments (SPPs), to which the Commonwealth normally attaches conditions that

must be observed by States and Territories, including how funds are to be applied, any matching funding requirements and accountability and reporting requirements.

1.5 For BCP, however, the untied nature of the funding was qualified by agreements under which States and Territories undertook to apply BCP funding towards the costs of specific urban strategies agreed with the Commonwealth. The agreements also provided for accountability by the States and Territories.

1.6 In many respects BCP had a dual nature. Its arrangements resembled those applying to SPPs. It differed in that its accountability process was focused on performance information, chiefly program outputs and outcomes, rather than accounting for inputs of finance and other resources. This approach reflected a recognition of Program Management and Budgeting principles.

BCP program objectives

1.7 The program had very broad objectives, encompassing:

- Economic growth and micro-economic reform - including the location and level of development needed to encourage economic activity and promote increased productivity;
- Social justice - including better access to employment, training, appropriate health care, family support and education;
- Institutional reform - including rationalisation of, and improved access to, key community and health services and reduced dependence on expensive outmoded types of institutional services;
- Improved urban environments and more livable cities; and
- Ecological sustainability - improved sustainability of cities through urban consolidation.

Portfolio responsibility

1.8 BCP was initially administered by the Department of Health, Housing and Community Services. With changes in Commonwealth administrative arrangements, it was managed by successor Departments in the Health Portfolio and transferred to the Department of Housing and Regional Development (DH&RD) in 1994. At the time of the audit, BCP was managed by DH&RD's Urban Programs Branch. The National Capital Planning Authority (NCPA) provided the managing Department with consulting services in connection with BCP. In March 1996 following the change of government, the program was transferred to the Department of Transport and Regional Development.

1.9 The Department notes that the original formulation of BCP was under the Department of the Prime Minister and Cabinet with the assistance of the National Capital Planning Authority. This included the Better Cities Task Force, an interdepartmental committee which endorsed the Area Strategies and advised the Government on the content of State/Territory agreements.

BCP implementation

1.10 The program was implemented through agreements between Commonwealth and State/Territory Ministers that included BCP Area Strategies for agreed localities. The form and content of the BCP agreements were the subject of recommendations by an Interdepartmental Task Force that included Commonwealth coordinating Departments. The program, including those agreements, was then implemented by the Departments mentioned above.

1.11 The Commonwealth, States and Territories agreed to contribute cash, land and facilities, and infrastructure investments to BCP. The total value of these contributions was estimated at the commencement of the program at \$2512 million, of which the Commonwealth was to provide \$816.4 million, or around one-third. Implementation arrangements emphasised a partnership approach between levels of government in planning and program delivery.

BCP also emphasised Program Management and Budgeting principles, through a focus on the development of performance information, principally concerning outcomes, as a primary means of managing and controlling the program. The BCP agreements included terms expressing a mutual interest in achieving agreed outcomes.

Table 1
Better Cities Area Strategies at December 1995

State	Area Strategies
New South Wales	Ultimo/Pymont High density affordable housing, planned light rail, sewerage and water systems, and a new neighbourhood park.
	Transit West (West Sydney) Development of Parramatta and Blacktown as key regional centres; construction of Blacktown bus and rail interchange and the Merrylands-Harris Park 'Y' rail link.
	Honeysuckle and Environs (Newcastle) Rejuvenating inner Newcastle; improving employment opportunities, public transport and housing choices.
	Eveleigh Medium density housing and open spaces; development of an Advanced Technology Park to encourage employment in knowledge-based industries and scientific research.
Victoria	Plenty Road Transport improvements - tram line extension to Mill Park; improved public housing; development of former institutional land; R&D commercialisation facility at La Trobe University.
	Inner Melbourne and Rivers Higher density public and private housing; city circle tram service; flood mitigation works.

	<p>South West Development of Bio-Technology precinct at Werribee including the Australian Food Research Institute; upgrade Geelong-Werribee-Melbourne rail line; redevelopment of the Norlane Public Housing Estate (Geelong).</p>
	<p>South East Rail infrastructure improvement, including redevelopment of Dandenong Railway Station; joint venture development of residential housing; promoting Dandenong as a regional employment and service centre.</p>
Queensland	<p>Brisbane-Gold Coast Corridor Extension of railway from Beenleigh to Robina; higher density housing, including public housing, with access to improved transport interchanges.</p>
	<p>Brisbane - Inner North Eastern Suburbs Conversion of former industrial sites for residential housing; higher density housing, including low cost housing and public housing; improvements to public transport; cycle path network and public footpaths.</p>
	<p>Inala - Ipswich Institutional reform, including closure of Wacol Rehabilitation Centre and the Challinor Centre for persons with intellectual disabilities and rehousing residents; infrastructure improvements including flood mitigation works; construction and upgrade of public housing.</p>
	<p>Mackay Urban Consolidation Project Provision of low cost housing and student accommodation; increased urban densities.</p>
	<p>South Townsville Inner City Village High density housing adjacent to Townsville CBD; better traffic management; improvements to community services.</p>
Western Australia	<p>East Perth Infrastructure upgrades including water, sewerage, drainage, power and road works; affordable housing and promotion of an urban village concept.</p>
	<p>Stirling Infrastructure upgrades - sewerage system, road and rail links, Stirling bus-rail interchange.</p>
	<p>Bunbury New public housing, tourist and recreational facilities; environmental and infrastructure works, including removal of oil storage facilities, waste water treatment system, and waterfront public open space areas.</p>
	<p>Fremantle Infrastructure upgrades - sewerage, stormwater drainage and water recycling systems; higher density housing including affordable housing and housing for the elderly.</p>
	<p>Perth Urban Innovative housing close to employment and transport.</p>

South Australia	Elizabeth - Munno Para Infrastructure improvements - stormwater drainage, water storage and landscaping; affordable housing initiatives.
	North West Sector Development of Multi Function Polis site and adjoining Northwest Crescent of Adelaide; road links and environmental improvements.
	Southern Areas Improved infrastructure - sewerage disposal, roads and cycle paths; employment opportunities at Noarlunga.
	Western Area Higher housing densities; improved community facilities; better traffic management.
Tasmania	Launceston Inner City Increased housing densities; development of cultural, community and conservation sites.
	Hobart Western Shore Improved urban environment and land use including decontamination of sites; institutional reform and conservation of historical sites.
Northern Territory	Darwin New deep water port for Darwin at East Arm Peninsula; environmental improvements.
ACT	North Canberra Waste water recycling plant scheme; an energy efficient rating system for new residences; higher density housing and institutional reform.

Reporting and accountability

1.12 Under program arrangements for BCP, the States and Territories were responsible for the development and construction of BCP projects, and making the contributions to which they agreed.

1.13 The BCP agreements incorporated a major innovation in accountability and measurement of performance by the States and Territories. Their accountability to the Commonwealth would be through reporting program outcomes and outputs.

Inputs and outcomes

Resources used in a program and include staff, funding, physical assets, materials and equipment. Managing inputs control program costs.

Outputs are goods or services that a program produces by applying inputs. Measuring outputs is a means of progress in implementing a program.

Outcomes are the results that a program achieves. They reflect the impact of program outputs on those elements of society or the community at which the program is directed. Measuring outcomes provides indications

that a program has brought about, and hence its effectiveness.

g Better Cities program:

ed Commonwealth funding and State and Territory contributions (in funds and resources); principally the capital items constructed under the program. They included elements for ing, and new or improved urban infrastructure. Other BCP outputs were new planning and rangements between State and Local Governments; and

e the improvements in urban factors at which the program was aimed. These included reduced , more intensive use of urban infrastructure, an improved urban environment and more sing.

1.14 The success of this approach to management depended on the flow of program information to the Commonwealth, and on monitoring by the Commonwealth. Accordingly, the audit focussed on the quality and timeliness of the information provided by States and Territories to the Commonwealth and whether the design of the program provided a way to assess outcomes and enabled effective oversight and monitoring.

1.15 The BCP agreements, which were signed first in 1991, did not have the clarity of definition reflected in the ANAO definitions above. The agreements mixed the definition of outputs and outcomes. The lack of clarity set the scene for ongoing performance monitoring.

1.16 The Department agrees that the definitions as used by ANAO accurately reflect current best practice for delineating the differences between outputs and outcomes. The Department notes that the Better Cities Program applied contemporary best practice definitions which did not have this level of clarity in distinguishing between outputs and outcomes.

and budget Impact

7 The total funding approved for Commonwealth BCP payments to the States and Territories was \$816.4 ion. Table 2 sets out the funding allocated to each.

le 2

dding Better Cities - Allocation of Funds to States and Territories

State/Territor y	BCP Alloca tion
New South Wales	278.1
Victoria	209.0
Queensland	139.4
Western Australia	78.3
South	68.7

Australia	
Tasmania	21.7
Northern Territory	7.5
Australian Capital Territory	13.7
Total	816.4

3 Commonwealth BCP funds were originally to be provided over a five year period from 1991-92 to 1995-96. There have been delays in some States and Territories. The first phase of the program has been extended by one year to 1996-97. Table 3 lists BCP appropriations and expenditure. Expenditure on BCP to 30 June 1996 is \$766 million. An additional appropriation of \$50 million in 1996-97 will bring expected expenditure to the approved level of \$816 million.

**Table 3: Building Better Cities Mark I
Commonwealth Appropriations and Expenditures**

Financial Year	Appropriation	Expenditure	Appropriation spent
1991-92	55.6	41.5	74%
1992-93	182.2	167.7	92%
1993-94	261.8	212.6	81%
1994-95	259.4	224.4	86%
1995-96	120.1	120.1	100%
1996-97	50.0	--	--

Cities Mark II

The second phase of the program (BCP Mk.II) was announced in the 1995 Budget with estimated Commonwealth funding of \$200 million over four years. This was to deal with national economic gateways such as sea ports, urban growth management and urban renewal. The Commonwealth entered into BCP Mk.II agreements with four States (New South Wales, Queensland, South Australia and Tasmania) before the March 1996 election.

Following the election, the Government announced that the program would not be continued. The 1996 Budget provided funding to meet existing contractual commitments. Appropriations and expenditure for BCP Mk.II are set out in Table 4.

**Table 4: Building Better Cities Mark II
Commonwealth Appropriations and Expenditures**

Financial Year	Appropriation	Expenditure	Appropriation spent
1995-96	20.0	20.0	100%
1996-97	2.6	--	--

Final evaluation

Departmental evaluation of BCP was undertaken in 1995. At the Department's invitation, the ANAO participated in discussions concerning the scope and terms of reference of the evaluation. As a result, the planning of the audit was able to focus on the management of the program, while the evaluation concentrated on the outcomes of the program and its achievements. The ANAO team remained in regular contact with evaluators during the evaluation. Comments on the results of the evaluation are included in Appendix 2. Between 1991 and 1995 there were no external reviews of the program.

In September 1995 and March 1996 the ANAO reviewed DH&RD Central Office management of the program and its implementation by DH&RD Regional Offices. The audit team visited BCP sites in three States (New South Wales, Queensland and Victoria). The cost of the audit was approximately \$350 000.

The audit was conducted in accordance with ANAO Auditing Standards.

Audit

The objectives of the audit were to review the effectiveness of DH&RD management of BCP performance and outcomes and to identify best practice elements that could be applicable to BCP and other Commonwealth/State programs.

The ANAO was aware of recent work by the Joint Committee of Public Accounts ¹ in connection with programs under Commonwealth-State agreements. Also, the ANAO has reported on the prospects of improving performance and best practice in the management of these programs ². Appendix 3 summarises these ANAO reports.

The audit focused on two principal aspects of the program and the criteria applied in each were as follows:

Program management

Program management is administratively effective if it results in:

Minimisation of financial and other risks to the Commonwealth; and

Accountability to the Government and the Parliament, including for the outcomes of the program.

Measuring program performance

Measurement of outcomes and program performance are central features of the BCP model and

should result in:

- a focus on defining and identifying BCP outcomes as improvements related to the program's objectives; and
- an emphasis on the measurement and reporting of such outcomes.

Conclusion

1.27 The ANAO is of the opinion that the management of the program was effective in controlling financial risks to the Commonwealth. In most cases, agreed outputs and completed BCP projects were delivered on time. Accountability for Commonwealth inputs and program outputs was also effective. In relation to the measurement and reporting of BCP outcomes, the agreements entered into by the Commonwealth and States did not adequately define the outcomes sought or appropriate means of measuring them. As a result, the high level of accountability by outcomes intended through the adoption of the BCP model was not achieved.

1.28 Detailed findings in support of this opinion are reported in the following chapters and are summarised in Part 1 of this report.

Cooperation with State agencies and Auditors-General

1.29 ANAO staff also consulted State departments and agencies to establish State views of BCP management requirements. The ANAO is grateful for their cooperation. However, the processes by which these State bodies implemented and managed BCP were not within the jurisdiction of the ANAO and accordingly were not part of this audit. We also consulted State Audit Offices to obtain their perspective of State systems and agencies involved in State management of the program. The Audit Office of Victoria subsequently advised that the Victorian Auditor-General had decided to conduct an audit of BCP implementation by agencies of the Victorian Government.

2. Managing and Monitoring Better Cities

This Chapter discusses management of the program by the Commonwealth. The ANAO considered whether financial management, program reporting and monitoring by the Commonwealth provided effective control and accountability.

Controlling program costs

Funding ceilings

2.1 The Commonwealth provided a maximum funding level for the life of the program and determined State and Territory entitlements on a per capita basis. States and Territories undertook to complete the work defined in agreed Area Strategies. There was no provision for States to claim cost increases but, if costs were lower than estimated, States and Territories were not required to refund the Commonwealth subvention.

2.2 These arrangements effectively controlled the risk of Commonwealth financial exposure, while providing some incentive for efficient performance by States and Territories. From the Commonwealth's

viewpoint, the program was delivered within budget. In most cases, agreed outputs and completed BCP projects were also delivered on time.

Financial operations

Timing and methods of payment

2.3 A review of BCP payments indicated that these were managed in accordance with prudent cash management principles. Weekly payments to States and Territories avoided large cash advances, continual reviews and adjustments. BCP management used payment processes to encourage performance by altering payment rates from time to time while issues about progress were resolved.

Budget performance

2.4 Annual BCP funding was based on estimates of activity in the BCP agreements, updated each year by information on State and Territory cash flow requirements, and performance according to agreed milestones and outcomes. Table 3 (see Chapter 1) shows that, after some initial underspending as States prepared plans for their participation, management of the BCP budget was generally effective. Actual and estimated expenditure for the five years from 1991-92 to 1995-96 totals \$766.3 million, or ninety four per cent of the total Commonwealth funding of \$816.4 million initially approved for the program. Commonwealth funding of \$50 million has been provided in the 1996 Budget to meet current commitments and complete the program.

Coordination with State agencies

Under the BCP agreements, States and Territories were responsible for implementing agreed Area Strategy construction and development programs. These programs were under the direction of State and Territory planning agencies and other bodies including transport and housing authorities, with State bodies coordinating activities State-wide as well as for target areas. Commonwealth oversight depended on monitoring implementation through liaison with State and Territory agencies and regular reporting.

Access for monitoring and supervision

The BCP agreements required States and Territories to provide reports and evaluation information as and when the parties agreed. They did not otherwise recognise the Commonwealth's need to monitor the implementation of the program by State and Territory agencies.

Coordination of program delivery between different levels of government was a significant feature of the program. It is reasonable to expect that States and Territories would have agreed to participation by the Commonwealth in State activities by which the program was implemented and coordinated, as a matter of good management practice. Agreements could have recognised that the Commonwealth may monitor the program, if necessary, to control risks to effective implementation. Access provisions would have been consistent with the Commonwealth's coordination objectives and the scale of Commonwealth funding. Notwithstanding, most States and Territories were cooperative. The Department advised the ANAO that it had never been denied access to any BCP site on request.

The extent to which the Commonwealth could effectively monitor the program depended on the level and regularity of contact between Commonwealth and State. This varied from State to State. In States where contacts with coordinating bodies were largely informal and irregular, there was a lower level of awareness by the Commonwealth of some major developments.

Accountability through reporting

The principal source of information for program management and oversight was a series of annual reports on Area Strategy. The terms of the BCP agreements required the Commonwealth Minister to reach agreement on the contents of each report with the responsible State or Territory Minister. In relation to each Area Strategy, the agreements specified that the reports should deal with:

- approach/activities undertaken to implement the area strategy;*
- account of actual outputs and outcomes achieved during the year in relation to agreed outcomes; and*
- report on the assessment, modification or continuation of each area strategy.*³

The measured implementation of the program against progress points (milestones) described in the Area Strategy were scrutinised within the then DH&RD and by consultants from the National Capital Planning Commission. The findings formed the basis for public and Parliamentary reporting on the program.

The Area Strategy included information on expected cash flows and the required rate of payment by the States and Territories. The Commonwealth was periodically advised of additional information on State cash flow requirements and the final Budget bids were based.

Under the normal arrangements for general purpose capital grants, the BCP agreements did not require financial accountability. However, States and Territories made information available to the Commonwealth from time to time regarding their expenditure and other contributions to BCP. Despite some inconsistencies in the bases on which such reports were prepared, DT&RD considered that the information supplied by the States in 1995-96 indicated that most contributions had been made in line with the original BCP agreements. However, ANAO noted an instance in which there was doubt that a promised contribution had been made. This could be attributed, in part, to confusion about the agreement and the value to be attributed to the contribution.

The agreements were clear that State accountability was to be achieved through reporting based entirely on the program implementation and program outcomes. This reflected the innovative nature of BCP management and was consistent with the Program Management and Budgeting orientation of the program. However, the agreements did not provide the Commonwealth with assurances that States had made the contributions to which they were entitled. The ANAO considered that a higher level of disclosure by State agencies of their BCP activities and results would have contributed substantially to monitoring by Commonwealth program managers.

Difficulties in measuring and reporting outcomes (referred to in Chapter 3) reduced the extent to which the Commonwealth had the assurances of progress contemplated by the agreements and, hence, State and Territory promised contributions. The result suggests that, in programs where outcomes are a key factor but not adequately reported, there is a tendency to revert to the traditional forms of input control and measurement through financial acquittal and

The agreements entered into in 1996 for BCP Mk.II reflect the prospect of a more traditional financial reporting approach. The agreements specify that amounts to be provided depend on satisfactory progress towards achieving milestones and, where appropriate, outcomes. Financial provisions and reporting are defined separately in sub-agreements for specific Area Strategies or planning studies. The ANAO noted that one such sub-agreement required the Commonwealth to pay the amounts received and expended on the study. This arrangement appears to combine both the outcomes-based approach and more traditional financial accountability, reflecting a more balanced approach in the light of the experience with BCP Mk.I. Such an approach also provides the basis for a more soundly based analysis of value for money, which needs to be weighed against the full program costs.

reports

Commonwealth-State Ministerial reports on Area Strategies were seldom finalised before November. These reports were a source of information for accountability to the Parliament through Departmental Annual Reports and the Budget. But they were not finalised in time to enable the Department to fully settle and agree on their content while the Budget was in train. DH&RD advised the ANAO that draft information was usually made available prior to the Budget being submitted. However, as the only mechanism by which States and Territories were accountable for a program with diverse activities and multiple objectives, the reports deserved more time for review in the context of the Commonwealth Budget.

It was noted that delays in providing information to the Commonwealth could be reduced by a more direct reporting arrangement between the Commonwealth Department and State/Territory agencies. BCP reporting arrangements were based on agreements between Ministers, an approach that entailed a lengthy process of consideration and development of report drafts, and then drafting the final document on which agreement could be reached. The agreements could provide for reporting to be facilitated by permitting the exchange of reports and information at agency level.

Delays with reporting were exacerbated by a change in the timing of the Commonwealth Budget that took place during the program. There was also some effect from the exigencies of the Budget and reporting cycles of the States and Territories. More effective reporting could have been achieved if the agreements had called for all reports to be prepared on a period other than the traditional July to June financial year. Designating the calendar year as appropriate for reporting would have avoided many of the delays in finalising reports and enabled better informed reporting to the Parliament during its consideration of the Commonwealth Budget.

Recommendation No.1

The Commission recommends that DT&RD, in developing arrangements for BCP Mk.II:

• establish a system of agency to agency reporting that will enable timely delivery of reports by States and Territories for Commonwealth budgeting and accountability purposes; and

• consider whether the adoption of a reporting year other than the July to June period would assist timely and effective reporting to the Parliament.

Departmental response

2.19 DT&RD advised that the framework for BCP Mk.II would include a streamlined reporting method in which a lead State or Territory agency would be responsible for reporting directly to the Commonwealth.

Progress reporting points

2.20 Most BCP area strategies included short term output measures, called milestones, related to construction and implementation. Examples were information on:

- completion of numbers of housing units;
- completion of works designs;
- the awarding of contracts or commencement of construction of sewerage and drainage, new roads and foreshore works; and
- gazettal of regional development plans.

Others dealt with less tangible activities, such as:

- appropriate coordination mechanisms;
- developing a mechanism for affordable housing;
- evaluation of coordination and approval mechanisms; and
- regular meetings of area strategy coordination committees.

2.21 These less tangible and less measurable milestones, some of which represented continuing activities, could have been more effectively dealt with, if necessary, through liaison between Commonwealth and State/Territory officers. The necessity to report them formally added considerably to the detail of the Ministerial annual reports.

2.22 The ANAO concluded that progress and output reporting was effective. However, the reports would be more useful for monitoring by the Commonwealth if they focused more tightly on significant tangible indicators of progress.

Recommendation No.2

2.23 The ANAO *recommends* that DT&RD, in developing arrangements for BCP Mk.II, continue to identify in agreed project descriptions progress points and milestones that reflect tangible achievements in major elements of projects and ensure that States and Territories focus on those achievements in reports to the Commonwealth.

Departmental response

2.24 The Department agrees with the recommendation. But it also considers that arrangements with States and Territories should include agreements on outcomes and suitable measures with which to monitor progress towards achieving these outcomes.

2.25 Measuring BCP outcomes is discussed in Chapter 3.

Commonwealth monitoring of BCP issues

2.26 During the audit, a number of BCP projects were reviewed in three States. The ANAO observed that, in a few instances, it was possible that some likely results of the program would not accord with the objectives of the program. These cases were raised with DT&RD to measure whether Departmental monitoring of BCP had been effective in identifying emerging problems and enabling an appropriate Commonwealth response. Details of the cases involved and the Departmental responses are at Appendix 4.

3. Measuring Better Cities Program Performance

BCP was, in part, a model for other programs in which a substantial orientation to outcomes was important. This Chapter discusses the extent to which outcomes were determined and extent to which these were measured.

Achieving BCP objectives

3.1 The objectives of the program were expressed as expected urban, social and economic outcomes or results. Monitoring and reporting on the implementation of BCP indicated that it had been successful as an infrastructure development and construction program. As indicated earlier, there was, however, little measurement of BCP outcomes and results. As a consequence, it is not possible to determine whether BCP achieved its urban, social and economic objectives at this stage.

Orientation to outcomes

3.2 Each Commonwealth-State BCP agreement referred, through the terms of Area Strategies, to project-specific outcomes. Some of these were:

- economic growth due to improved labour market flexibility and reduced travel times;
- reduced aggregate expenditure on housing and urban infrastructure;
- better integration of physical planning, social planning, economic development, infrastructure investment and environmental management;
- accelerated inner urban development and reduced demand for outer urban growth;
- achievement and maintenance of an appropriate social mix in some urban areas;
- reduced reliance on private cars;
- improved urban environment compatible with heritage values; and
- better integration of growth areas with district centres and labour markets through increased use of public transport.

3.3 The agreements also listed potential outcomes for the program overall. These included:

- better urban management through improved integration of urban planning and development;
- improved utilisation of urban land and existing infrastructure;
- increased housing choice and affordability;
- improved linkage between public transport, employment centres, and health, community and education services, with particular reference to disadvantaged groups;
- reduced traffic congestion and pollution costs;
- improved labour market outcomes;
- reduced dependence on inappropriate institutional service provision;
- reduced environmental problems in urban areas and reduced impact of urban areas on the environment;
- improved efficiency of funds allocated to urban development and infrastructure provision;

and

- reform of pricing and financing of urban infrastructure.

3.4 These lists indicate that the achievement of outcomes was an important feature of the program. It could, therefore, be expected that reporting on the achievement of outcomes should also be an important feature for the Commonwealth Department responsible for the program and in reports by the States and Territories under the BCP agreements.

3.5 The Department advised that proposed demonstration activities were also seen as an important mechanism for program monitoring and measuring outcomes achieved. A demonstration strategy was developed to disseminate the knowledge and experience generated by integrated and strategic management approaches to urban and regional development. A number of BCP Area Strategies also called for the development of strategies to demonstrate the outcomes achieved.

3.6 At the time of the audit, there had been a number of professional and technical seminars addressing program achievements. A number of papers had been published aimed at accelerating the transfer of knowledge and best practice among professional planners, and hence to promote the adoption of practice likely to lead to the attainment of BCP objectives. Area Strategy demonstration programs were also under development.

BCP reporting of outcomes

3.7 The principal external reports by DH&RD, the Commonwealth Department responsible for the program at the time of the audit, were:

- the Departmental Annual Report;
- an annual Statement on the program tabled in the Parliament; and
- national BCP Status Reports published annually.

The ANAO observed that these reports concentrated mainly on outputs connected with progress in implementation. There was little reporting on outcomes that reflected BCP achievements in terms of the urban, social and economic factors that made up the specific and general outcomes listed in BCP agreements and Area Strategies.

3.8 The BCP agreements provided for annual reporting by States and Territories on outcomes achieved, compared with agreed planned outcomes. However, there was limited reporting on this basis, with most reports focusing on output measures (progress in construction, awarding contracts and planning milestones).

3.9 The orientation of the program to outcomes was not, therefore, reflected in reporting and accountability as had been intended. There were a number of aspects of the BCP arrangements that were, in ANAO's view, relevant to this result:

- few of the detailed BCP Area Strategies included agreed practical measures of the program outcomes desired;
- there was little data on the factors to be addressed, particularly in terms of statistics and measurements that could be used as a baseline against which changes could be measured;

- neither BCP agreements nor Area Strategies included agreed methods by which appropriate data was to be collected to enable measurement of achievements; and
- there were no national BCP performance indicators that would provide an impetus and a strategic basis for performance measurement throughout the program.

3.10 The Department advised that, while the State/Territory agreements included Area Strategy and Program outcome statements, these indicators needed to have clear and realistic/appropriate performance measures. The Department recognised the need to achieve greater clarity in defining outputs and outcomes and gathering performance information generally, and specifically addressed this issue in the Performance Information Review undertaken jointly with the Department of Finance during 1995-96 and reported early in 1996.

Measuring BCP outcomes

3.11 Many of the outcomes cited in BCP agreements and Area Strategies can be measured. However, the agreements did not, in most cases, define ways of measuring them. Those measures that were subject to detailed description usually focused on plans and needs assessment, establishing consultative networks, detailed sub-strategies and the commencement and completion of works, principally output measures. Some agreements recognised longer term measurement needs and cited elements such as relocation of residents, occupying new housing, evaluating and reviewing the effectiveness of projects, and the introduction of new transport measures. Many of these could also be viewed as measures of outputs rather than outcomes.

3.12 The ANAO considered that the nature of many BCP development activities suggested a number of possible outcomes that could be measured to indicate what BCP had achieved. In relation to BCP projects that were reviewed during the audit, some of the outcomes sought could be measured by changes in:

- waste water treatment and associated river and harbour water quality;
- occupation and population demographics in areas or precincts in which 'an appropriate social mix' was the intended outcome;
- air quality in areas where lower rates of usage of private vehicles were intended;
- public attitudes to, and public acceptance of, different housing types, densities and modes;
- the number of different housing types available;
- time taken to obtain planning approvals for housing development;
- employment levels and job creation in BCP target areas;
- rail and public transport journey times;
- levels of public transport usage;
- the cost of home construction in BCP areas and other new comparable housing areas; and
- the level of impact of new BCP housing on public infrastructure and the cost of its provision.

3.13 There was little reporting along these lines in respect of those activities that were reviewed during the audit. The Departmental view was that many BCP project elements would be completed in the final years of the program and that outcomes would emerge, in the main, after that period. However, ANAO considered that, for some projects, outcomes could be measured reasonably quickly (for example, travel times on improved rail lines or reduced pollution discharges), even if the full benefits of BCP development would accumulate over longer time periods.

3.14 In any case, it appeared to the ANAO that insufficient attention had been given to agreeing on outcomes so as to enable later measurement. Greater attention to this factor during the design of the program could have incorporated a more measurable outcome structure.

3.15 The Department commented that the Better Cities State/Commonwealth head agreements provided for monitoring and evaluation reporting on the program at such times and in such formats agreed to by all parties. The list of suggested outcome measures provided by ANAO was a very useful contribution towards the current debate about how to measure performance in urban programs. The cost of measurement as well as the administrative structures to collect, store, analyse and report on data were other important considerations which could be addressed by all parties.

3.16 The Department also considered that the specification of outcomes should be an integral part of program formulation. The ANAO agrees with this approach. Submissions to Government for approval and resourcing of a new program should be required to traverse the outcomes to be sought by the program and the means of their achievement. The Department commented that the BCP agreements, first signed in 1991, had designated specific project milestones that served as tangible measures of outcomes. It considered that subsequent advances in refining the distinction between outcomes and outputs were due in part to experience with BCP.

Starting points and data collection

3.17 Even where BCP projects and strategies cited potential practical measures, very few indicated base values of community and economic factors as agreed starting points on which BCP improvements would build. Area Strategies dealing with improving the environment by lower rates of car usage did not, for example, cite air quality values and current rates of car ownership.

3.18 Those Strategies in which public transport usage, reduced travel times from home to employment, levels of employment in target areas and new housing construction costs were significant factors did not cite any current values for those factors the program would address. Neither did they incorporate agreed methods of collecting data on these factors, nor indicate the existence of data sources on which the measurement of outcomes could be based.

3.19 Without agreement on starting points for measurement and sources for relevant statistical measures, any later measurement of BCP outcomes was rendered much more difficult. The ANAO noted that quantitative data was available through sources such as rail authorities, road transport authorities, planning agencies and local government, that could have provided suitable baseline data and access to later statistics for several projects reviewed during the audit.

Recommendation No.3

3.20 The ANAO *recommends* that DT&RD, in developing arrangements for BCP Mk.II:

- ensure that Commonwealth-State agreements and associated project descriptions and Area Strategies include definitions of appropriate and measurable outcomes as a basis for outcomes reporting;
- specify current values and baseline measures for urban, social and economic factors in which improvement or change is seen as an important program outcome; and
- agree, where possible, on the availability of data appropriate to outcomes measurement, on data sources to be used and how such information is to be reported.

Departmental response

3.21 The Department agrees with this recommendation and, as noted in paragraphs 3.10 and 3.35, this matter was addressed in the Performance Information Review conducted jointly with the Department of Finance which reported early in 1996.

National performance indicators

3.22 The breadth and diversity of BCP objectives was a notable feature of the program. The example of including mental health institutional reform as an objective of an urban development program raised the questions of whether all these objectives were best linked to BCP or whether a more suitable program was available.

3.23 Most BCP objectives were capable of translation into expected program outcomes, as the large number of general and project-specific potential outcomes listed above at paragraph 3.2 demonstrate. Many outcomes could be translated into changes in urban and social factors. Many of these could give rise to some measurement activity. A strong central strategy for performance measurement was needed to provide a basis for reporting on outcomes.

3.24 The ANAO considered that the strategic basis for measurement would have been much stronger if national performance indicators had been determined for the program. These could have been based on the Commonwealth's principal program objectives, augmented by the objectives of approved Area Strategies as these were agreed. The ANAO noted that, as would be expected, there were a number of common activities evident in agreed Area Strategies (see Chapter 1, Table 1). Adopting national performance measures for elements such as housing affordability, housing densities, transport improvements, housing development costs and environmental impact would have increased the focus of the program on achieving and measuring BCP outcomes. With national performance indicators in place, accountability and reporting at all levels would, in the ANAO's opinion, be substantially enhanced.

Recommendation No.4

3.25 The ANAO *recommends* that, in setting up management arrangements for BCP Mk.II, DT&RD develop appropriate national performance indicators as a basis for enabling the measurement of outcomes at all levels in the program.

Departmental response

3.26 The Department agrees with the recommendation.

Information on BCP performance to date

3.27 The extent of Parliamentary reporting of BCP outcomes since 1991 has been very limited, in part due to the lack of statistical and other measures in the BCP agreements. Some Area Strategies will continue, partially through continuing State funded developments, for almost another ten years. ANAO considered that the need to report to the Parliament on the outcomes of BCP Mk.I will require DT&RD to undertake some form of measurement against tangible performance indicators of the outcomes of the program.

3.28 The Commonwealth has no right under existing arrangements to demand that States and Territories now agree to a suite of appropriate indicators and furnish information on them. However, new arrangements could be introduced under the BCP agreements if all parties agree. BCP is an important urban initiative, and the outcomes achieved should be measured as far as possible to gauge the success of Commonwealth intervention.

3.29 Measuring BCP performance assumes an additional importance with the winding back of BCP Mk.II that will take place from 1996-97. The BCP model was based on innovative elements that could be useful in the further development of program delivery methods based on program outcomes. Resources will be required to conduct the negotiations with States and Territories and to develop BCP performance information and report it to the Parliament to indicate whether the innovations were successful.

Recommendation No.5

3.30 The ANAO *recommends* that DT&RD, in the remaining period of operation of BCP Mk.I:

- negotiate with States and Territories to define qualitative, quantitative and statistical indicators for the outcomes of all BCP Area Strategies funded to date; and
- develop and report to the Parliament information concerning whether BCP has achieved its outcomes and whether the BCP model was a successful method of program delivery.

Departmental response

3.31 While the Department agrees with the recommendation, in line with findings from its own Performance Information Review, it is noted that, with the Government's decision to abolish the Regional Development Division and the Better Cities Program, administration of BCP now focuses on meeting outstanding liabilities alone, thus constraining the Department's capacity to act on this recommendation.

The 1995 DH&RD evaluation of BCP

3.32 The Departmental evaluation completed in late 1995 considered and reported on progress against BCP's main objectives. Its sample of area strategies included activities reflecting the most significant objectives of the program.

3.33 The evaluation report commented on achievements in connection with ecologically sustainable development, economic and employment impacts, social justice, institutional reform and affordable housing. The comments were mainly directed at BCP results in terms of project completion and the potential for improvements in urban factors. The report did not, except for the social justice element, develop or identify performance measures that could be applied to assess the actual benefits of implementing the area strategies. It did not comment on the lack of baseline and progress data on many of the factors that BCP was to address, such as air quality, residential development, transport

and housing affordability.

3.34 Further comments on the results of this evaluation, and an extract from the Executive Summary of its report, are at Appendix 2 to this report.

Performance information review

3.35 The Department completed a Performance Information Review in 1996. A joint committee, including the Department of Finance, managed the review. The review identified some weaknesses in performance information and recommended that the Department should:

- increase the understanding of the role of performance information in program management;
- improve the balance between outputs and outcomes performance measurement; and
- clearly define the difference between outcomes, intermediate outcomes and outputs.

It also recommended that new policy proposals submitted for Government approval should:

- identify the expected contribution to Government policy;
- include a developed evaluation strategy and agreed timetable before funds are allocated;
- report to Government after twelve months on any proposed alteration to a strategy, overall objectives or the timetable; and
- link program evaluation to the Budget.

ANAO conclusions

3.36 Building Better Cities was an outcome oriented program. ANAO noted that there were gaps in the way its achievements were measured. There was little reporting of measured improvements in the social and urban factors at which BCP was aimed. Commonwealth-State agreements required reporting on outcomes but appropriate outcomes were not defined for most projects and there was little specification of data on the factors in which improvement was sought. There were no national performance indicators to provide an effective central focus on program outcomes measurement.

3.37 The general lack of measurement of change and improvement brought about through BCP activities leads ANAO to conclude that it is not possible to determine whether the program has achieved its objectives at this stage.

4. Better Cities and Other Commonwealth Programs

This Chapter reviews Commonwealth management practices in respect of BCP in comparison with other Commonwealth/State programs.

4.1 The choices that were made in setting up BCP arrangements with the States reflected an

innovative approach to the management of joint programs.

4.2 While classified as a general purpose capital assistance program, BCP added considerably to the framework of accountability normally applying to such programs. In having program specific agreements incorporating the extent and method of State and Territory accountability to the Commonwealth, BCP closely resembled the Specific Purpose Payment (SPP) arrangements by which many Commonwealth programs are delivered.

Reporting inputs

State and Territory management of BCP funds

4.3 State and Territory management of BCP activity usually involved:

- Treasuries or Departments of Finance;
- departments responsible for planning functions and development; and
- agencies such as rail, transit, public housing, road and transport authorities, specialised development corporations and works departments.

4.4 Accounting arrangements varied between the States and the Territories. All agencies involved in the program, however, reported annually to their respective Parliaments, with agency annual financial statements usually audited by Auditors-General.

Disclosure of BCP funds

4.5 The annual financial statements and reports of some State and Territory agencies disclosed information on BCP finances. The ANAO noted that:

- there were differences in accounting methods;
- receiving, transferring and expending Commonwealth BCP funds involved different agencies; and
- BCP funds were seldom separately identified in agency financial statements or in the notes to them.

4.6 Agency financial statements and reports included details of the expenditure of their own funds and, in some cases, Commonwealth program funds under their control. Some agencies detailed the acquisition of assets (eg. land) at cost or without charge, major liabilities and capital investment. Their financial reports could, in principle, disclose all State and Territory contributions to BCP, both financial and in kind, although this would add to the level of detail included in general purpose financial statements. The ANAO found that there was, in practice, little disclosure by relevant agencies of BCP transactions, including the receipt and expenditure of Commonwealth and some State and Territory contributions to the program.

Monitoring by the Commonwealth

4.7 The ANAO considered the potential for the Commonwealth to monitor BCP implementation through the published financial statements of the State and Territory agencies involved in the program.

4.8 Because of the lack of disclosure of BCP related transactions in the financial statements of these organisations, little use could be made of them for monitoring purposes.

4.9 The ANAO considers that Commonwealth monitoring of programs such as BCP could be improved if the opportunity existed to make more use of the financial statements and reports of State and Territory agencies actively involved in implementation and delivery. Effective monitoring of Commonwealth program interests by this means would require action by the Commonwealth and States and Territories to change accounting and reporting for these programs. It would require:

- full disclosure of Commonwealth funded activity in State and Territory agency financial statements;
- clarifying methods of accounting for Commonwealth funds; and
- disclosure of transactions that reflect State and Territory contributions.

Accountability through State and Territory agency reports

4.10 The ANAO notes that financial and acquittal reporting was considered in 1995 by the Joint Committee of Public Accounts. ¹ The Committee reported that accountability by States and Territories could be streamlined if use were made of 'appropriately annotated annual financial statements of SPP fund recipients for SPP acquittal purposes'. ²

4.11 ANAO discussed with some State BCP agencies their accounting and reporting practices. With the changes in disclosure outlined above, the annual financial statements of these agencies could assist Commonwealth monitoring. However, the changes needed will only occur if States and Territories agree to full disclosure, in agency financial statements, of transactions arising from their participation in the program. Adopting this approach for a program will require consideration of disclosure and reporting as part of the negotiation of new program agreements.

4.12 It would also be possible for States and Territories to provide the necessary disclosure in special purpose financial statements summarising receipts, expenditure and other transactions directly related to their participation in a Commonwealth-State program. The disadvantage of this approach lies in the extra costs that State and Territory agencies would incur in the preparation of such statements, and the cost of separate audits of them. It would also reduce the advantages of 'streamlining' the process as recommended by the JCPA.

4.13 The Department noted that the fundamental issue is whether the right balance can be struck between the traditional general purpose capital funding model (GPP) and the more conventional SPPs. GPPs require significantly less financial accountability from States and Territories than SPPs and a greater degree of discretionary expenditure on the part of recipients. In what circumstances would a lower level of input and expenditure reporting from States and Territories be acceptable, if balanced by appropriate Commonwealth risk management?

4.14 The Better Cities Program sought to increase the degree of accountability within the traditional GPP model but did not go so far as to require input and expenditure reporting of the scale or specificity of SPPs. In the Department's view, in this style of financial management, the Commonwealth gained greater accountability data and risk management capacity while the recipients operated in a tighter but still flexible framework for expenditure. Neither party was as rigidly controlled as SPPs. Savings or cost over-runs accrued to the recipient.

Specific purpose payment practices

4.15 According to an ANAO survey of SPPs in 1994-95 ³:

- in 76 per cent of SPPs, State and Territory government agencies accounted to the Commonwealth through certifications that expenditure on the program (including Commonwealth funds) had been in accordance with agreed conditions;
- the certifications were given by various State and Territory officials, including Auditors-General; and
- in 63 per cent of SPPs, the certifications were accompanied by a Statement of Expenditure in which the expending agency detailed the receipt and expenditure of funds provided by the Commonwealth.

The process is intended to assure the Commonwealth that funds have been correctly applied. Certifications are evidence that spending has been consistent with the relevant agreement.

BCP management

4.16 No statements of expenditure or certifications were required under BCP agreements. Estimates of BCP cash requirements for budget purposes were based on original cost estimates, updated while the program developed. The Commonwealth received reports on BCP progress, which were the basis for judgements on whether State and Territory expenditures were consistent with agreements.

4.17 As indicated in Chapter 2, in one BCP project reviewed during the audit, Commonwealth BCP managers were uncertain whether a particular State had made a contribution referred to, but not quantified, in the agreed project description. It is possible that input reporting or financial monitoring would have disclosed the position.

4.18 Should BCP Mk.II proceed, negotiations about program agreements and arrangements for Area Strategies and planning studies will provide an opportunity for DT&RD to clarify State and Territory accounting methods and seek a level of disclosure in agency financial statements that would permit efficient monitoring

Recommendation No.6

4.19 The ANAO *recommends* that DT&RD for BCP Mk.II:

- determine the extent to which financial monitoring could be effectively conducted through the financial statements of State and Territory agencies receiving and/or expending Commonwealth funds; and
- obtain State and Territory agreement to disclosure of BCP finances in appropriately annotated State agency annual financial statements, or, if appropriate, in special purpose financial statements.

Departmental response

4.20 While the Department supports such a process, the efficiency of dealing on an ad-hoc basis at a program or Departmental level would lead to multiple standards. The Department believes that such agreements should be undertaken by negotiation between the various Commonwealth,

State and Territory financial reporting coordination Departments to ensure minimal disruption to State and Territory financial reporting and auditing processes and uniformity of agreements between States, Territories and individual Commonwealth agencies.

Other programs

4.21 It is open to other Commonwealth agencies to negotiate with States and Territories to seek a level of disclosure in financial statements that would obviate the need for specially prepared statements of expenditure and certifications. Decisions to seek such arrangements should be based on an assessment of risks to Commonwealth interests through, for example, expenditure of Commonwealth funds other than in accordance with an agreement or a lesser level of State and Territory financial effort than agreed. If these and similar risks are such as to require direct management, Commonwealth agencies should consider negotiating appropriate disclosure by State and Territory agencies.

Reporting outputs

BCP progress reports

4.22 Under the BCP model, Commonwealth-State agreements included BCP projects as parts of Area Strategies. These described expected implementation over a planned five-year program and provided a basis for progress reports. Moreover, the agreements themselves called for regular reports of progress against broad categories of outcomes. With the long term nature of most BCP outcomes, it was unrealistic to expect that measuring outcomes could form the basis of progress reports. The provisions of the agreements dealing with progress reporting were unable to be achieved.

4.23 In practice, most BCP reporting dealt with program outputs, usually progress in construction and development. Annual reports agreed between Commonwealth, State and Territory Ministers, while subject to some delay, provided the Commonwealth with a means of supervising State performance and meeting its program reporting processes.

4.24 The ANAO considered that the arrangements reflected some confusion between outputs and outcomes and the purposes for which progress reports were required. Outputs were reported virtually by default as little information was available during the program on its long-term outcomes.

4.25 Despite this confusion, progress reports were detailed and useful. They provided a basis, for example, on which payments to States and Territories were reduced or deferred to reflect delays in the program. Chapter 2 includes comments and recommendations about the need to refine the selection of BCP progress indicators, and the need for an agency to agency reporting structure.

Other programs

4.26 Agreement on progress measures such as construction milestones is a useful way of ensuring that both parties have a common basis to understand how the Commonwealth expects a program to be implemented or delivered. In programs where implementation may be defined in terms of progress over time, such provisions can add a level of control and information on which program managers can receive assurance that progress is achieved.

Reporting outcomes

Reporting on BCP program performance

4.27 BCP was aimed at achieving a broad range of outcomes. It was primarily oriented to management by outcomes, as reflected in the terms of the Commonwealth-State BCP agreements.

4.28 However, little reporting of outcomes was achieved during the life of the program. Both in Departmental reports to the Parliament, and in reports to the Commonwealth by States and Territories, the principal focus was progress in construction and development.

4.29 The reasons that outcome reporting was not fully achieved for BCP included:

- the lack of national performance indicators for the program;
- the long term nature of many of the outcomes sought and the relatively short time over which BCP was implemented;
- the recital of outcomes in BCP agreements, without any specification of appropriate qualitative and quantitative measures; and
- the omission of reference to base line information concerning those urban elements the program sought to improve.

4.30 The ANAO considers that these were significant omissions in a program expressly concerned with outcomes and with measuring and reporting them. We have recommended attention to introducing outcomes measurement for the current program and for BCP Mk.II.

Outcomes reporting for other programs

4.31 The wider use of outcomes reporting and performance indicators was advocated by an ANAO report in 1993-94⁴ and in the JCPA's 1995 Report⁵. The JCPA indicated a view that many financial input controls could be eliminated in programs where effective performance and outcomes measurement were in place.⁶

4.32 The wider adoption of such management controls depends on developing a series of appropriate outcome measures and performance indicators, a data collection and reporting regime, and the routine analysis of data. Without these steps, it seems unlikely that useful measurement of performance and outcomes can be achieved.

4.33 These steps were not taken when BCP was implemented. The reasons for this were unclear. For any similar program where performance measurement is intended, a process of design is required at the outset to define outcomes in measurable terms and achieve provisions in agreements with States and Territories by which data is collected and reported to the Commonwealth. The BCP experience would suggest that this is not an easy process when a program is initially developed and the emphasis is on getting it up and running. It should, however, be seen as an essential element in the conception and design of a program where specific outcomes are desired.

The results of the BCP model

4.34 While BCP succeeded in achieving an urban construction and development program, the management system it used did not have the capacity to indicate that the outcomes sought in terms of improved quality of urban life, social justice and micro economic reform have been, or will be,

achieved. To achieve the effective measurement of outcomes, more work is required to define measurable indicators and undertake appropriate information collection.

5. Better Cities and Better Practice

This Chapter reviews the major features of the BCP model and the changes in the model that apply to BCP Mk.II.

Features of the BCP model

5.1 The major features of the BCP Mk.I management model were:

- multiple and ambitious program objectives;
- funding as a general purpose capital program, but subject to conditions and undertakings not before associated with such programs;
- detailed agreements between the Commonwealth, States and Territories that included:
 - the objectives of the program;
 - listing of examples of BCP 'expected outcomes';
 - accountability through progress reporting on the basis of outputs and outcomes;
 - agreed project (Area Strategy) descriptions;
 - project milestones; and
 - agreed resources and contributions by both parties;
- fixed total Commonwealth funding for the program overall;
 - maximum State and Territory funding shares; and
 - agreed fixed Commonwealth contributions to projects (Area Strategies);
- annual cash flow determination and weekly payments to the States; and
- a focus on outcomes as an important means of accountability reporting to the Parliament.

Better Cities Mk.II

5.2 The BCP Mk.II agreements signed in 1996 with four States followed the same general model, and incorporated several changes in program management. These changes included:

- cash flows to be agreed on an appropriate basis for each study or project;
- financial acquittal reports for planning studies;
- full participation by the Commonwealth in State steering committees and progress monitoring by those committees. The Commonwealth can request written reports on any

aspect of studies and projects;

- output related milestones such as the completion of planned tasks;
- annual progress reporting by designated State agencies;
- funding of planning studies to precede detailed project development; and
- a stronger focus on outcomes and more extensive use of performance measurement as a management tool, including benchmarks and targets for urban conditions such as transport times, water and air quality, energy and resource consumption.

5.3 Arrangements for BCP Mk.II are more detailed and entail a stronger role for the Commonwealth in monitoring and reporting on the activities for which funds are provided.

Better practice

5.4 The BCP was an important addition to Commonwealth-State financial assistance models. While it was a general purpose capital assistance program, BCP payments to States and Territories were predicated on the achievement and reporting of outcomes and progress. Adopting a similar outcomes oriented approach is under consideration for other Commonwealth-State programs as a means of reducing duplication of administration with improved accountability. Report 342 of the Joint Committee of Public Accounts supported the wider use of the outcomes approach.

5.5 Reporting program outcomes is dependent on defining the outcomes required and how they are to be measured. The experience with BCP suggests that effective outcomes reporting in any program depends on developing appropriate outcome measures and performance indicators, a data collection and reporting regime, and the routine analysis of data. For any similar program where performance measurement is a central requirement, program design must define outcomes in measurable terms and negotiate an appropriate data collection and reporting regime. The BCP experience suggests that this is not an easy process. During the development of the program the emphasis is on getting it up and running. Time and resources may not be available to design outcomes definitions and measurement arrangements. These steps are, however, essential in programs where specific outcomes are sought.

5.6 In conducting a performance audit of BCP, the ANAO had the opportunity to consider the practical features of managing a program in which outputs and outcomes were important and delivery was by another level of government than that providing the funds. Some of these features are sufficiently important to merit consideration in the design of future Commonwealth programs. These are set out below. It should be noted that not all of these issues arose directly during the BCP audit. Some of those that did are included in the following comments. The suggested approaches are based on good practice that ANAO observed in the management of BCP.

Management by outcomes

- The number of program objectives should be realistic and achievable.
- National, State and/or project performance indicators are required to enable effective reporting of performance at all levels.
- Agreements between the Commonwealth and States or Territories for an outcome-oriented program should include a strong focus on program outcomes and their measurement. This should include statements of agreed outcomes, together with agreed indicators of

performance, baseline data on the factors that the program addresses and a strategy for the collection of data on changes in those factors. Such outcome measures may be required after specific Commonwealth program funding has ceased.

Implementation

- Where outcomes are not measurable in the short term (such as environmental improvements or effects on long term community health), decisions on progress and continued funding may need to be determined on the basis of output measures (such as milestones in construction or the delivery of services). Defining these measures is an important function of the relevant agreements.

Costs and resources

- Imposing a fixed total cost, and agreeing on fixed levels of Commonwealth project funding has benefits in minimising the financial risk exposure of the Commonwealth and provides an incentive to States and Territories to control costs and deliver a program efficiently. A consequence of this approach is that States and Territories rather than the Commonwealth may benefit from efficiency savings.
- Where outcomes measures are weak, it is especially important that program financial inputs, as well as program outputs, are measured and monitored. That is because input measures can have a role in achieving value for money.

Accountability

- In managing jointly funded programs, Commonwealth managers should seek arrangements that promote disclosure by States and Territories of the expenditure of Commonwealth funding as well as of their own contributions. This disclosure could take several forms, such as through agency general purpose financial statements or through specific purpose financial statements.
- Specific purpose financial statements and certifications should only be sought where they add value or reduce a significant risk to the Commonwealth.
- Reports by States and Territories, whether on progress or outcomes, should be timely. Reports should be available at the time of the preparation of the Commonwealth Budget to enable effective and timely assessment of program results and to allow reporting of program performance to the Commonwealth Parliament. For outcomes and performance reporting, a period other than the normal financial year may be an appropriate base.

Monitoring and evaluation

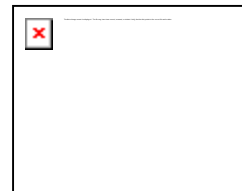
- Specific provisions should be included in agreements to recognise Commonwealth needs for monitoring the implementation of programs and to authorise Commonwealth program managers to seek specific reports and information on programs from State or Territory agencies.
- The extent to which monitoring and reporting takes place should reflect the level of risk to Commonwealth interests if delivery of the program occurs other than as planned. Risks should be identified and the necessary level of control put in place through the identification of outputs and outcomes and an appropriate reporting regimen.

Purchaser - provider arrangements

5.7 There are parallels between the management of BCP and the purchaser-provider model for delivery of government programs. The recommendations for best practice are aimed at ensuring that agreements for service provision between the Commonwealth and the States and Territories are:

- comprehensive in defining the objectives sought;
- clear in defining roles and responsibilities;
- specific in defining the expected outcomes and the way that outcomes may be measured;
and
- specific in defining a reporting regimen.

5.8 Agreements that incorporate these features will support and expedite the adoption of the purchaser-provider model for the delivery of services to the Commonwealth by States and Territories.



Canberra ACT
8 October 1996

P. J. Barrett
Auditor-General

1

Joint Committee of Public Accounts 1995, *Report 342: The Administration of Specific Purpose Payments: A Focus on Outcomes*. (L.J Scott, Chairman) AGPS, Canberra.

2

JCPA Report 342, Page 79.

3

ANAO 1995, *Audit Report No.21 1994-95: Specific Purpose Payments to and through the States and Territories*, AGPS, Canberra.

4

ANAO 1993, *Audit Report No.6 1993-94: An Audit Commentary on Aspects of Commonwealth-State Agreements*, AGPS, Canberra.

5

JCPA Report 342, Chapters 3 and 4.

6

ibid., Recommendations 6 and 7.

Appendix 1 - A Better Cities Area Strategy

Area Strategy - Plenty Road - Victoria

The strategy

1. The target area was in the suburbs of Melbourne. Its predominant feature was under-utilised State and Commonwealth land. It included large residential medical institutions and large public housing estates characterised by obsolete and inappropriate housing. The uses to which this government land was put were considered inappropriate and lacking integration with surrounding areas. Employment opportunities in some parts of the area were limited and there was a need to improve public transport.

The budget

2. The total budget for the Area Strategy was \$149.7 million over the five-year implementation period to 1995-96, made up by:

- Commonwealth (BCP) contribution \$97.4 million
- State contribution \$52.3 million

This estimate did not include any value attributable to Commonwealth or State land and facilities made available to the strategy, nor the cost to the State of capital expenditure on other facilities in the area.

Objectives

3. The objectives of the Area Strategy were:

- to achieve reforms in institutional services for people with psychiatric and other disabilities;
- to promote labour mobility and services accessibility by improvements in public transport;
- to improve the utilisation of available social infrastructure in the corridor;
- to promote urban consolidation with mixed use development and higher density housing in under-utilised land in established areas and thereby to reduce the demand at the urban fringe; and

- to encourage development of employment opportunities close to residential areas.

4. The Area Strategy was implemented through a number of developmental projects and activities.

Redevelopment and devolution of institutional services

5. The task called for the amalgamation and consolidation of the services provided at a number of the residential institutions in the area. It included the development of methods of delivering alternative services in the community, at other locations throughout Melbourne.

Institutional land release for medium density housing

6. Land freed by institutional redevelopment and adjacent Commonwealth land no longer required was incorporated into a master plan for the area. Land is to be released for private sale and public housing construction.

Housing development

7. The strategy included redeveloping public housing units in the area and making land available for the development of private housing.

Light rail extension

8. Tram services were extended into the area ahead of residential development. This was aimed at providing better access and establishing a public transport habit among current residents. The service is also intended to support the increased area population that will follow housing development.

Technical precinct

9. The strategy also provided for the building of a technical business facility located within La Trobe University to encourage more employment in the area.

Area coordination

10. The area was the responsibility of four Local Government authorities. The strategy called for significant coordination between Commonwealth and State agencies and local government to introduce new planning approaches and methods in developing the area.

Appendix 2 - 1995 Evaluation of the Building Better Cities Program

Results of the 1995 BCP evaluation

Background

1. DH&RD's Portfolio Evaluation Plan 1995-1997 included a major evaluation of BCP, commencing in November 1994. An initial review was completed by December 1995, and a full evaluation of BCP outcomes was planned for 1997.

2. Initial studies of the economic impact of three selected Area Strategies were reported in February 1995. An overview study based on interviewing participants in Commonwealth, State and Local government was completed (in draft) in April 1995.

3. Starting in July 1995, coordinated studies commenced of BCP management arrangements, and the likely impacts of BCP and its Area Strategies. Key conclusions and recommendations were to be taken into account in finalising BCP (in 1995-96 and 1996-97) and developing BCP Mk.II (planned for 1996).

4. The evaluation mainly focused on the extent to which BCP met its objectives and the appropriateness of the area strategy approach. It also dealt with the appropriateness of funding, management and accountability.

5. The ANAO was informed of the commissioning of the evaluation, at about the same time as the preliminary study for this performance audit was in train. The scope and focus of the audit, and the audit criteria, were drawn up to avoid duplication of effort and to increase cooperation.

6. Evaluation studies were completed and a report released in late November 1995. The Executive Summary of the report is reproduced below.

7. The ANAO reviewed both February 1995 and November 1995 reports and made the following observations.

February 1995 reports

8. The February report on economic impact was principally aimed at evaluating the short term impact of three area strategies on GDP and employment, and resource efficiency enhancement. The analysis quantified benefits in several areas:

- impact on GDP;
- impact on employment;
- impact on private sector investment;
- impact on Commonwealth Government revenue;
- impact on household disposable income; and
- overall impact in present value terms.

9. The report developed a range of statistical measures that quantified benefits. There was no evidence, however, of DH&RD's views on whether the reported results indicated a satisfactory outcome. In the absence of a general framework of performance indicators for BCP, the economic results could not be compared with any management targets or expectations.

10. The analysis dealt with three selected area strategies. Results were reported on a case-specific basis. For two strategies, the analysis was based on payments during the program, ie., the amounts actually contributed by States and the Commonwealth.

11. In the third case, analysis was based on an estimated expenditure pattern declared when the strategy was approved. This could be unreliable as an indicator of actual expenditure. It included a light rail proposal and a ring road development that had not been built.

The November 1995 report

12. The November evaluation report considered and reported on progress against BCP's main

objectives. Its sample of Area Strategies included activities reflecting the most significant objectives of the program.

13. The ANAO noted, however, that the evaluation did not comment on achievement by the program of the expected outcomes. Neither did the evaluation report develop or identify performance measures or comment on the lack of baseline and progress data on many of the factors that BCP was to address, such as air quality, residential development, transport and housing affordability.

14. The evaluation included findings that will assist the development of improved approaches to the implementation of BCP Mk.II. However, as pointed out in Chapter 3 of this report, BCP management should define expected outcomes against which the achievements of the program can be measured.

Extract from 1995 Better Cities evaluation report

15. The following extract from the Executive Summary of DH&RD's Better Cities Program Evaluation Report (released 29 November 1995) summarises the results of the evaluation.

"In terms of Better Cities five key objectives:

a) The program appears likely to generate positive longer term impacts on economic efficiency and Gross Domestic Product and result in a modest increase in employment. Economic gains are expected to result from savings in future infrastructure investment (associated with encouragement of urban consolidation), increased utilisation of existing infrastructure and the support of local business development initiatives.

While the longer term economic impact of the program is likely to be positive the evaluation indicates that Better Cities should not be seen as a means of providing counter cyclical economic stimulus. The lead times involved in many of the projects supported by the program are too long for this purpose. More importantly, turning program funding on and off in response to changing economic circumstances would threaten State, Territory, Local Government and private sector support for the program and make it impossible to achieve the programs key objectives;

b) The emphasis which Better Cities places on cross-functional and inter-governmental coordination is consistent with the fundamental principles of ecologically sustainable development (ESD) and the program can be expected to advance the understanding and implementation of ESD.

The program supports the achievement of higher residential densities and increased use of public transport. It has also supported the application of innovative approaches to reuse of grey and waste water and to the management of urban stormwater. These initiatives address priority areas of environmental concern as expressed in the National Strategy for ESD;

c) The performance of the program in terms of its social justice objective has been more mixed. In part this reflects inadequate understanding of, or disagreement with Commonwealth social justice priorities at State and Local Government levels. It also reflects a lack of explicit attention to the needs of disadvantaged groups in some area strategies.

However, most area strategies include a number of social justice initiatives. These include measures to increase access to employment, facilities and services (especially by public transport); encourage social mix; and promote community participation in local area planning. In addition, the program has

supported a range of innovative affordable housing initiatives, some of which seem likely to have wider demonstration potential. The program has been a catalyst for provision of community based services for people formerly in institutions;

d) Four area strategies included institutional reform objectives designed to provide community based housing and support services in place of inappropriate institutional care for people with intellectual disability or mental illness. All of the institutional care reform projects have proceeded as planned. The area strategy process enabled decisions regarding the future use of land released through institutional reform to be related to wider planning and development objectives.

Better Cities funding has hastened the process of institutional care reform by catalysing the provision of suitable community based housing. It has also led to a number of States to develop more appropriate policy frameworks and guidelines for implementation of institutional reform;

e) The program has removed significant infrastructure barriers which were inhibiting urban development and redevelopment in a number of areas. This has resulted in strategic areas being developed which otherwise would have been bypassed, enabled redundant institutional land to be redeveloped for housing and created significant opportunities for private investment in formerly neglected/derelict areas.

In particular, the program has been a catalyst for investment in public transport improvements and in reorientating urban development and redevelopment to make better use of public transport facilities;

f) The program has also assisted State and Local Governments to address a variety of local amenity problems in localities covered by area strategies. While many of the improvements which have been implemented or planned are primarily of local significance the program has also supported the development of design guidelines which have potential for wider application.

The extent of the program's longer term benefits will to a substantial degree depend upon its success in:

- creating new development/redevelopment opportunities, especially in 'run-down' areas of the cities;
- further assisting in strategic infrastructure (especially transport) improvements and in demonstrating new approaches and technologies; and
- encouraging the wider adoption of an integrated ('area strategy') approach to planning and development.

The demonstration effects of the program to date have been significant and State officials involved in the program can point to many examples of wider application of lessons learnt from area strategies.

The consensus of those consulted in the course of the evaluation is that the Better Cities Program is an appropriate and effective mechanism for the Commonwealth to encourage integrated planning and infrastructure provision by other levels of government.

A more conclusive assessment will not be possible until some years after completion of the area strategies."

Appendix 3 - ANAO Reports on Commonwealth-State Agreements

The ANAO has conducted several audits dealing with Commonwealth-State programs. The most recent of these reports were:

- Audit Report No.6, 1993-94 - *An Audit Commentary on Aspects of Commonwealth-State Agreements*. This report identified and discussed important features of Commonwealth practice in managing programs conducted under Commonwealth-State agreements, principally Specific Purpose Payment programs (SPPs); and
 - Audit Report No.21, 1994-95 - *Specific Purpose Payments to and through the States and Territories*. This report documented the results of a survey of SPP management. The survey was conducted jointly by the ANAO and the Joint Committee of Public Accounts. The report described features of the management and accountability provisions of SPP agreements and their implementation.
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Appendix 4 - Monitoring Better Cities Results

1. For the most part ANAO field work confirmed that BCP development work was well directed with results likely to be close to those planned. For some projects, however, it was possible that some results would not ultimately accord with the objectives of the program. These cases were raised with DT&RD to measure whether Departmental monitoring of BCP had been effective in identifying emerging problems and enabling an appropriate Commonwealth response. Details of the cases involved and the Departmental responses are set out in the following paragraphs. The issues described here are:

- affordable housing;
- State contribution;
- institutional reform;
- road and transport elements; and
- demonstrating Better Cities results.

Affordable housing

2. Demonstrating affordable housing was a major element in BCP's aim to promote improved social justice. A number of approaches were trialed through BCP projects, including direct subsidy and reducing construction costs. Some demonstration activities have taken place and others are planned. However, the work funded appears to have had little impact on Commonwealth programs that directly support housing affordability.

3. Providing affordable housing is usually dealt with by the Commonwealth under the Commonwealth-State Housing Agreement (CSHA). CSHA arrangements include the funding of public housing, together with community and cooperative housing.

4. The ANAO noted in BCP site visits that BCP approaches to affordable housing included:

- releasing for housing tracts of land formerly occupied by government institutions;
- commercial developers subsidising inner-city housing through development levies or contributions; and

- reducing the costs of land and construction by streamlining planning approvals.

5. None of these approaches was reflected in recent changes to CSHA arrangements, which continue to be the only program vehicle under which the Commonwealth supports housing affordability.

6. The 1995 BCP evaluation reported that BCP funded a variety of affordable housing initiatives. It recommended continuing review of cost effectiveness of affordability initiatives and funding of the most cost effective strategies. The ANAO notes that it also concluded that guidelines for any future activity should be consistent with Commonwealth housing assistance programs.

State contribution

7. One inner city Area Strategy included among its objectives:

- greater use of under-utilised Commonwealth and State land;
- higher rates of population density;
- reduced costs per dwelling of urban infrastructure; and
- the provision of greater housing choice and affordability.

8. These supported the development of a precinct of mixed public and private residential use based in part on disposing of the site of a former State institution.

9. Under BCP agreements States and Territories committed themselves to providing funding and other contributions. For this project the details recorded in a 1993 agreement included:

- an undertaking that all State revenues arising from the project would be reinvested in new Building Better Cities projects;
- indicative costings that:
 - assigned Commonwealth BCP funds of \$0.8 million to site preparation and planning studies for this precinct, out of a total BCP contribution to the strategy of \$34.8 million; and
 - recorded a State contribution of \$46.96 million, including 'the value of released land and works associated with the program'. The State contribution was not costed to individual elements of the strategy; and
- sustainable affordable housing as a key outcome related to maintaining 'an appropriate social mix' in the area.

10. The site was sold in 1994 and proceeds were of the order of \$27 million. The ANAO considered that the terms of the agreement would require the State to make an additional contribution to the program.

The situation at the time of the audit

11. ANAO inquiries indicated that:

- developing the site had become a private sector matter quite outside BCP, involving high rise luxury apartments;
- there was no evidence that the proceeds of the site sale had, as promised, been applied to Building Better Cities projects; and
- reports to the Commonwealth were equivocal; a 1993-94 report referred to a 'social housing project' that would not proceed. The 1994-95 report did not mention alternative proposals.

12. The ANAO concluded that, as at late 1995, there had been changes in the project as implemented. There was some doubt that the affordable housing element of the Area Strategy had been implemented. The State had met its agreed financial obligation to the program but uncertainty remained whether the revenue achieved by the sale of land constituted an additional obligation that had not been met.

Monitoring by BCP management

13. Commonwealth monitoring should detect such changes in implementation, but:

- liaison with the State agencies actively implementing the strategy was not strong; the Commonwealth had no observer access to coordination meetings; and
- reports for 1993-94 and 1994-95 were not clear as to whether alternative proposals would go ahead.

14. The Department received information in 1995 on State commitments and expected outgoings that indicated that the State had made a contribution of \$46.96 million to this Area Strategy.

15. ANAO discussions with the Department indicated some confusion about:

- whether the sale proceeds were a commitment over and above the agreed contribution, or part of it; and
- whether there had been an approved change in the strategy.

16. Commonwealth monitoring had not resolved the doubt that the State had met its promised contribution in full, nor fully disclosed the apparent changes in implementation of the strategy. We were subsequently advised that difficulties with this strategy had been discussed with State officials as early as 1993. However, action was needed to clarify the agreement and ensure that, even with changes, the strategy would meet its aims.

17. The instance suggested that BCP needed closer liaison and access arrangements for Commonwealth monitoring of the implementation of the program. A more focused progress reporting approach, and reporting between agencies are recommended in Chapter 2 of this report.

18. Without clarification, it will be difficult to measure the performance of the strategy. The precinct in question appeared to be a profitable inner city development, unlikely to contribute to social justice objectives and likely to have proceeded through private sector investment without BCP participation.

19. The 1995 BCP evaluation report did not deal with this strategy in any detail. It summarised all strategies and indicated that, in this case, there had been no significant variations.

20. The Department advised that the State had agreed that all State revenues arising from the project would be reinvested in new better cities projects. Its specific commitment to the area strategy was agreed at \$46.96 million which included the estimated State revenues at the time the agreement was signed. The Department was satisfied that the State had expended the amount it agreed to contribute, and annual reviews had confirmed that milestones had been achieved as required.

21. The Department considered that there was no binding requirement to put additional revenue from land sales towards further projects outside the scope of agreed area strategies. It was not possible to demand more financial information from the State.

Institutional reform

21. BCP funded major institutional reform, mostly aimed at providing community housing and support services for people with intellectual disability or mental illness. While most objectives of these projects appeared capable of being met, ANAO observed that there had been delays in implementation.

22. The program was concerned with reforming large State residential health institutions, and improving social justice by providing facilities in the wider community. The substantial sites no longer required were to be used for housing development.

23. ANAO noted that in some cases progress in implementation was slow and BCP's aims would probably not be achieved in the current life of the program. For one strategy reviewed, expenditure needs had been over-estimated, and a large Commonwealth funds requirement remained for 1995-96 and 1996-97. In another, major milestones for 1994-95 were not met.

24. Institutional reform was complex and involved agencies across a spectrum of activity (eg. health, housing, community welfare, and public works). There were difficulties in coordinating activities. Residential development depended on relocation of patients. This required the development and construction of new facilities in other areas. This, in turn, depended on changing service delivery methods.

25. BCP was first delivered through the Department of Health, Housing, Local Government and Community Services. While always difficult, promoting coordination and cooperation between levels of government with agencies involved in mental health reform was simpler than later when this goal was pursued through DH&RD, which clearly was not a health department.

26. As a consequence, the pace of change was apparently much slower than anticipated in BCP planning. The build up of a large funding requirement for some of these projects suggested that further delays could extend beyond the life of current BCP agreements, with difficulties in completing the proposed work and measuring the performance of the program.

27. The 1995 BCP evaluation report concluded that BCP funding had hastened institutional reform and supported new policy frameworks and operational arrangements. It also referred to the importance of realistic time frames for such changes and the need for systems to monitor and evaluate the effects of reform. These findings were largely consistent with ANAO observations.

28. The inclusion of institutional reform as an objective of an urban development program raised the questions of whether BCP was the most suitable vehicle for the delivery of a complex policy objective only tangentially connected to urban reform.

29. The Department stated that the second objective of institutional reform was to use strategic, large land parcels including those released in the institutional reform process for redevelopment, allowing demonstration projects in housing and related forms of urban consolidation.

Road and transport elements

30. One inner city project aimed at higher density residential development on under-utilised land. An important element in planning was upgrading arterial roads to provide an atmosphere conducive to residential development and to reduce noise and air pollution. The upgrade included a new bypass for heavy vehicle traffic. Other significant traffic changes planned appeared to depend on the removal of through traffic.

31. At the time of the audit there was progress on residential development and area improvement. However, there were delays with the bypass. Construction was planned to commence in early 1995-96, but reports indicated that this would not occur.

32. Delaying or deferring the bypass could have a major effect on achieving project objectives. It may reduce the effectiveness of the other improvements.

33. The Department acknowledged that the bypass had been under discussion for several years and a final proposal had not been identified so far.

Development of a rail terminus

34. Another strategy included a rail terminus at a semi-urban centre. The site was some distance from a commercial shopping and community centre under development. The project did not provide a connecting facility. Observation suggested that local transport (eg, taxis and buses) would probably be based at the shopping centre. The distance between the two, while not great, indicated that walking would not be a suitable means of contact, particularly for elderly and disabled users of the train service.

35. It was not clear from the strategy whether a connection between rail and local transport was integral. However, the location of the terminus suggested that onward transport connections would inevitably be required. The ANAO noted that other BCP projects had, as central elements, connections between rail and other transport modes.

36. The Area Strategy summaries that formed part of the evaluation report did not refer to either of these findings. Neither did they indicate that there were 'significant' variations in the Area Strategies.

37. The Department advised that the rail project was intended to lead rather than follow development. Development control plans dealt with land use surrounding stations, and these were expected to complement the transit orientation of each centre. Strategic planning for the region and development planning for the Local Government area provided the context for more detailed plans around stations, and connections between residential developments and transport nodes for more coherent management of growth in the corridor.

Demonstrating Better Cities results

38. Each BCP Area Strategy required action to demonstrate what had been achieved. Most succeeded in developing a strategy to conduct seminars, workshops and other means of demonstrating the results. On a broader basis, NCPA conducted seminars among planning and industry professionals.

39. BCP did not, however, enjoy a high public profile. Its projects mostly had few activities aimed at public awareness of its existence as a major Commonwealth program. For instance, there was limited project signage referring to the Commonwealth or BCP. Many signs referred mainly to State and local government involvement in construction and development.

40. BCP's housing innovations could have been more actively demonstrated to the public. The planning and construction of higher density housing was demonstrated to planners and developers. However, there was scope for some public education on BCP housing options, particularly to foster acceptance of higher density housing and other choices, and to foster demand. There appeared to be some reliance on public housing agencies as a means of introducing these choices to the public

41. The 1995 BCP evaluation reported that a number of changes were needed. One was to develop a BCP marketing strategy and a better idea of the target market for BCP innovations and improvements. The ANAO agrees and notes that the importance of the market in housing choices suggest that efforts should be made to have BCP funded choices more widely accepted.

42. The Department commented that the initial target audience included professional groups, local and State Governments and the development and housing industries. Physical completion of many projects was in the later stages of the program and an appropriate demonstration was yet to be reported.

Appendix 5 - Performance Audits in the Transport and Regional Development Portfolio

Below are the titles of the reports of the main performance audits by the ANAO in the Transport and Regional Development Portfolio tabled in the Parliament in the past three years.

Parliamentary Report No.6 1993-94
Audit Commentary on Aspects of Commonwealth-State Agreements

Parliamentary Report No.8 1993-94
Qantas - Qantas Aviation Authority - Centre for Air Traffic Services

Parliamentary Report No.15 1993-94
National Highway

Timeline of the Nation'
Transport and Communications Portfolio

Parliamentary Report No.17 1993-94
Underperforming Officers in the APS - A Question of Efficiency

Parliamentary Report No.9 1994-95
Subject Audit
Australia ready to respond to a major oil spill?
Australian Maritime Safety Authority

lit Report No.11 1994-95

ject Audit

L - Valuation Issues

lit Report No.14 1994-95

ject Audit

ce of Local Government: Local Capital Works Program

lit Report No.21 1994-95

ject Audit

cific Purpose Payments to and through the States and Territories

lit Report No.2 1995-96

ters Relating to the Proposed Sale of ANL Ltd

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x Management by Commonwealth

sumer Product Safety Regulators