

Commonwealth Natural Resource Management and Environment Programs

Performance Audit

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Audit Report No. 36 1996-97

Abbreviations and acronyms

ABARE	Australian Bureau of Agriculture and Resource Economics
AGPS	Australian Government Publishing Service
ANAO	Australian National Audit Office
ARMCANZ	Agricultural and Resource Management Council of Australia and New Zealand
ASL	Annual Staffing Level
ATCV	Australian Trust for Conservation Volunteers
COAG	Council of Australian Governments
CLEB	Commonwealth Law Enforcement Board
DEST	Department of Environment, Sport and Territories
DPIE	Department of Primary Industries and Energy
EA	Environment Australia
GA	Greening Australia
GAL	Greening Australia Limited
JCPA	Joint Committee of Public Accounts
LWRRDC	Land & Water Resources Research & Development Corporation
MDBC	Murray-Darling Basin Commission
ML	megalitre (one million litres)
NCOG	National Corridors of Green
NHT	Natural Heritage Trust
NLP	National Landcare Program
NRI	National Rivercare Initiative
NVI	National Vegetation Initiative
OBT	One Billion Trees

PCMS	Project Contract Management System
PMDB	Program Management Database
PMP	Property Management Planning
RAP	Regional Assessment Panel
RAS	Rural Adjustment Scheme
RMCOG	River Murray Corridor of Green
SAP	State Assessment Panel
SCARM	Standing Committee on Agriculture and Resource Management
STB	Save The Bush

Summary

An overview of the programs

1. The National Landcare Program (NLP) and related vegetation and water monitoring initiatives form key components of Australia's National Strategy for Ecologically Sustainable Development which was endorsed by all levels of government in 1992. The program elements covered by the audit have involved expenditure of \$407.6 million over the four years from 1993-94. They will form important components of the Government's \$1.25 billion expenditure over the six financial years from 1996-97 under the Natural Heritage Trust (NHT) which aims to encourage *'a more rapid and effective shift to ecological sustainability in Australia'*. ¹

2. The audit covered major program elements within the Department of Primary Industries and Energy (DPIE) and Environment Australia (within the Department of the Environment, Sport and Territories) that are managed:

- directly by DPIE or Environment Australia;
- through the One-Stop-Shop project assessment process administered by the States/Territories; ² or
- by non-government organisations.

3. These major program elements encompass the NLP within DPIE; and the Save the Bush (STB), One Billion Trees (OBT), Waterwatch, National Corridors of Green (NCOG) and River Murray Corridor of Green (NCOG) programs within Environment Australia. The Grasslands Ecology Program within Environment Australia was also examined in terms of its contribution to biodiversity protection.

The purpose of the audit

4. The purpose of the audit was to examine and benchmark the administrative processes established for the relevant Commonwealth natural resource management and environment programs outlined above. By providing a comprehensive analysis of the lessons learned from the purchaser/provider arrangements in DPIE and

Environment Australia it is hoped to assist in the development and implementation of the NHT for more cost effective outcomes. Issues such as the scope for improvement in program efficiency, economy and coordination were also examined. The primary focus of the audit was to draw on the best elements of past practice (particularly in relation to programs involving the One-Stop-Shop) and highlight any shortcomings so that the risks to program effectiveness and accountability could be addressed in the implementation of the NHT.

Overall conclusions

5. The ANAO recognises the evolutionary nature of Commonwealth natural resource management and environment programs and that it will take many years to redress environmental damage to any appreciable degree. Environmental outcomes in particular can be difficult to measure because of the long lead times involved. Nevertheless, the ANAO considers that progress towards achieving ultimate program outcomes can and should be measured to the maximum extent possible. DPIE and Environment Australia have measured some outputs such as the growth in the number of landcare groups, the level of community awareness of programs and the amount of fencing to protect vegetation. However, after some five years since the then Prime Minister's Statement on the Environment and nearly eight years into the Decade of Landcare, the Commonwealth is still unable to indicate in any detail the outcomes that have been achieved from any of the programs examined. The ANAO considers that DPIE and Environment Australia have the scope and capability to make significant improvements to the performance and financial accountability of the Commonwealth programs examined in the following areas:

- performance information;
- needs assessment;
- a strategic focus on outcomes;
- client focus;
- monitoring, review and performance reporting;
- grant acquittals;
- incentives and sanctions;
- cash management; and
- competitive tendering.

6. The ANAO recognises that a balance has to be struck between the need for administrative controls and the desirability of conferring on service delivery agencies some flexibility in the management of program inputs. This balance can be largely achieved through the systematic management of risks. However, at the present time, there is a high concentration of resources devoted to input controls for programs that form part of the One-Stop-Shop project approval process. This has a tendency to

create unnecessary overlap between the role of the Commonwealth and that of the States and Territories. It also leaves few resources free for essential program-level financial and performance monitoring, evaluation and reporting. In particular, the ANAO found that acquittal of grants by service delivery agencies and other grant recipients is unsatisfactory. Improvements can also be made to Commonwealth cash management practices and the application of incentives and sanctions to encourage compliance with grant terms and conditions. The ANAO considers there is scope for introducing competitive tendering for the delivery of NHT programs. Such competition would enable DPIE and Environment Australia to demonstrate that the administration costs of the programs were minimised. The ANAO also considers that risks from cost-shifting and 'double-dipping' need to be closely monitored to ensure program integrity is maintained.

7. The ANAO accepts that DPIE and Environment Australia are constrained by poor baseline information on the current condition of the environment, which makes determining needs and national priorities all that more difficult. In this regard, the ANAO notes that the timely production of National Land and Water Audit outcomes will be critical for the appropriate targeting of NHT funds. Nevertheless, programs can and should be designed and implemented with strategic performance information, a clearer client focus, and monitoring and review mechanisms 'built-in' to provide a firm basis for measuring outputs and the contribution they make to program outcomes.

8. The ANAO acknowledges the important contribution made by DPIE in developing the NLP Partnership Agreements which in turn provide a sound basis for progressing NHT Partnership Agreements. The project assessment and approval process developed by DPIE for the NLP will also apply to the NHT. The ANAO recognises this is an endorsement of the design of the NLP model. However, any delays in finalising the NHT Partnership Agreements will inhibit the Commonwealth in its ability to assess NHT program performance in 1997-98 and possibly further inhibit performance assessment in 1998-99. The ANAO considers that the Commonwealth should make every effort to finalise the preparation of the NHT Partnership Agreements as soon as possible.

Agency responses

9. The Department of Primary Industries and Energy agrees with all recommendations but has some reservations concerning the demands on assessment panel members and the resource implications of alternative cash management approaches. DPIE is also concerned with the ANAO finding on the lack of program outcomes. DPIE considers that the NLP operates against a hierarchy of outcomes that link the NLP to the Decade of Landcare Plans and the National Strategy for Ecologically Sustainable Development. The ANAO has taken these strategies/plans into account but, as the primary focus of the audit was on the NLP itself rather than these broader environmental strategies, the ANAO has assessed outcomes against the specific objectives for the NLP contained within the Partnership Agreements and the relevant legislation.

10. Environment Australia agrees with the recommendations and is generally

supportive of the report and its key findings. Environment Australia considers the report will provide a valuable context and guidance for the improvement of programs under the NHT. However it does have some reservations concerning the resource implications and the availability of alternate service delivery agencies.

11. The ANAO notes the positive attitude and approach taken by officials from DPIE and Environment Australia throughout the course of the audit. Many of the suggestions raised by the ANAO in the discussions with agencies have already been incorporated within the draft design of the proposed NHT Partnership Agreements.

Key Findings

Performance accountability

Program objectives

1. Program objectives for the landcare programs examined tend to be broad, difficult to measure and are often output or process-oriented. DPIE has attempted to develop operational objectives for the NLP that are linked to performance indicators, targets and milestones - with variable results as far as quality and consistency are concerned. Although Environment Australia has not developed operational objectives for the programs it administers, it has recognised the problem and is taking steps to improve objectives under the NHT. The lack of operational objectives makes it very difficult to determine the extent to which programs are achieving their intended outcomes. Operational objectives are needed for the NHT that are concise, realistic and measurable outcome-orientated statements of what the programs aim to achieve.

Roles and responsibilities

2. Under current contracts/agreements for the delivery of Commonwealth landcare programs, the distinction between the roles and responsibilities of the various parties has tended to lack clarity - particularly in terms of the roles and responsibilities of the Commonwealth. This has increased the scope for DPIE to overlap, rather than complement, the roles of the States and Territories.

3. The ANAO has also observed that some OBT Service Delivery projects funded by Environment Australia in the past could be interpreted as having a focus on influencing government decision-making in favour of the service delivery agency as well as for the benefit of the OBT program.

4. While the draft Partnership Agreements for the NHT contain considerable improvements in terms of clarifying responsibilities, the challenge facing Commonwealth departments will be to maintain a focus on strategic planning and performance assessment within a systematic risk management framework throughout the implementation process for the NHT. DPIE and Environment Australia will need to ensure that the proposed improvements are incorporated into the final Partnership Agreements.

Performance information

5. The ANAO found that although performance indicators, and to a lesser extent, performance targets and milestones, for each State/Territory had originally been developed for the NLP administered by DPIE, these have not been applied effectively by all parties to the Partnership Agreements. As well, meaningful outcome-focussed performance indicators have not been developed for programs administered by Environment Australia. Program performance information in DPIE and Environment Australia is generally limited to input, process or output measures (such as the number of landcare groups funded through the program, number of people and the number of hectares of land involved).

6. The ANAO supports the development of an appropriate set of performance indicators, targets and milestones as a high priority for the NHT. Information on demand patterns for the NHT should also be collected as part of this process. This is important to give an indication of total demand for the program and ensure the clarity of NHT guidelines and pre-application information made available to applicants. Performance information should be reliable, cost effective to collect and should be refined in the light of experience and/or as a result of evaluations. The ANAO and Department of Finance *Performance Information Principles Better Practice Guide* (1996) provides a sound basis for DPIE and Environment Australia to improve performance in this regard.

Needs assessment

7. A comprehensive assessment of needs has not been undertaken for programs under the National Landcare umbrella. The National Land and Water Audit, which is proceeding as part of the NHT, could make a substantial contribution. However, current progress suggests that the Audit's results will not be complete until a substantial proportion of the existing NHT funds has already been spent (that is, by mid-1999). While recognising the inclusive nature of the 'bottom-up' submission based approach, the ANAO considers that, in the absence of a rigorous, national needs assessment process, the various programs cannot consistently target Commonwealth investment to highest priority needs, including the identification of the regions to be covered.

8. The ANAO observed that substantial changes in project priorities can occur throughout the various level of the One-Stop-Shop project selection process. This raises questions as to the quality and clarity of the guidelines provided by the Commonwealth to the regional assessment panels (RAPs), the relevance of the priorities for different regions or the capacity of RAPs to apply national guidelines to local circumstances. The compatibility of State/Territory and local government programs, policies and practices with Commonwealth objectives and programs is an important issue that requires specific consideration in any needs assessment process (for example, the total land area involved in the Save the Bush (STB) and OBT programs nation-wide over the seven years from 1989-90 represents only eleven per cent of the bushland which has been estimated to have been cleared Australia-wide over the same period). The balance between public and private benefit and who should pay is another issue that requires greater attention. This is because the Commonwealth intends to only fund projects to the extent of any public benefit.

However the classification of benefits into public and private is not straightforward. The ANAO considers that the needs assessment process should be enhanced overall if the NHT is to be well-targeted and achieve value-for-money outcomes.

9. The ANAO found that the One-Stop-Shop project assessment process (through regional and State assessment panels) and the disclosure of estimated project expenditure on project applications provide the Commonwealth with a basis for determining if it is receiving value-for-money. However, the programs delivered by Greening Australia are assessed in a comparatively less transparent manner than those assessed through the One-Stop-Shop process. In addition, the limited budgeted project expenditure reporting by Greening Australia does not allow Environment Australia to determine whether it is receiving value-for-money from these programs. Environment Australia has indicated that this is continuing to be addressed through the NHT.

A strategic focus on outcomes

10. The NLP administered by DPIE was originally designed in 1992 with a sound outcomes focus consistent with Council of Australian Governments' and Joint Committee of Public Accounts' recommendations. The ANAO acknowledges the important role that DPIE has played in the design of the NLP (particularly the Partnership Agreements) and in the subsequent design of the NHT. DPIE and Environment Australia have measured some outputs such as the growth in the number of landcare groups, the level of community awareness of programs and the amount of fencing to protect vegetation. However, after five years since its inception, the NLP has not had a sufficiently strong outcomes focus in its implementation to measure progress towards the main objective. The smaller, more fragmented Environment Australia programs did not have the same attention to design as did the NLP. Environment Australia is also in a similar position to DPIE in not being able to measure, after eight years since the start of the programs, the extent to which program outcomes are being achieved.

11. Although it is clear that some funded projects have contributed to program outcomes, overall the link between project outputs and the achievement of program outcomes is not as clear. In short, this is due to inadequate performance information and an overly input-oriented focus in program administration. The ANAO further considers that, with an appropriate risk management strategy in place, the Commonwealth could take greater advantage of the administrative savings that could be achieved by eliminating unnecessary overlap within the One-Stop-Shop processes.

12. The ANAO accepts that it is not always easy to measure outcomes because of factors such as the long lead times involved (for example, 20-30 years to show results). However, the ANAO considers that progress towards achieving program outcomes can and should be measured. The challenge for DPIE and Environment Australia will be to ensure that important priorities for achieving NHT program outcomes in the medium to longer term are not simply overtaken by the immediate need to manage inputs.

13. The ANAO considers that much greater attention should be given to developing an integrated, strategic approach to the management of interrelated natural resource management and environmental problems. This is justification for the NHT focus on integrated regional/catchment projects as a major new program component. In addition, program funding should also be consistent with and reinforce national, State and Territory policies and regulations (such as on tree clearing) and economic incentives (such as full cost pricing for natural resource use).

Client focus

14. DPIE and Environment Australia have made major improvements to their client focus since the inception of the programs. The One-Stop-Shop process was well supported as a concept by all stakeholders consulted during the course of the audit. However, there was a general consensus that improvements could still be made. In particular, the time frame for the process is too long (about ten months) and project announcements are not always made at the appropriate time to implement projects (for example, seasonal factors are not always considered) This results in further delays. Confusion among client groups is also apparent over the number of different but related Commonwealth and State/Territory programs. The ANAO considers that significant improvements to program efficiency can be made through a better client focus that includes measures such as broad-banding of related programs at the regional level and more use of discretionary block grants to regional catchment committees where appropriate accountability and performance measurement mechanisms have been put in place.

Monitoring, review and performance reporting

15. Overall, monitoring, review and performance reporting has been variable across programs and falls short of identified better practice. The many reviews and evaluations to which DPIE has provided submissions give an indication of projects being undertaken, and at least some information on outputs but there is little clear indication of results or progress against original NLP program objectives. Environment Australia's program evaluations of the STB and OBT programs has resulted in improvements to administrative practices and priorities. However, management information systems and project monitoring in both departments have not been adequate to properly manage the potential risks. The ANAO recognises that Environment Australia's newly-introduced management information system should assist in better monitoring and reporting of program performance.

16. Performance reporting by States/Territories has been limited to individual projects. Consequently, the schedules to the Partnership Agreements (containing performance indicators and targets) have been substantially reduced in value as a management tool. The ANAO noted that this issue has been addressed in the draft NHT Partnership Agreement.

17. DPIE's records indicate that, as at January 1997, more than half of the NLP project performance reports were overdue. However, the ANAO found that this may be attributable, at least in part, to inadequate records management by DPIE. More than half of the OBT and STB Community Grants project performance reports are also

overdue.

18. Reports generated for Environment Australia under the OBT Service Delivery program do not always relate actual project performance targets/ milestones to proposed targets/ milestones set out at the start of the year. The ANAO also found that programs delivered by States/Territories had an on-going process in place to independently monitor project performance reported by the grant recipients. This was not the case for the OBT Service Delivery, RMCOG and NCOG programs.

Financial accountability

Grant acquittals

19. Annual grant acquittals provide the Commonwealth with a measure of assurance that taxpayers' funds allocated to grant recipients have been spent for their intended purposes. Grant acquittals are an integral part of applying good risk management principles. However, in general, compliance by funded bodies to acquit grants is unsatisfactory. The ANAO found that two of the six programs examined did not maintain sufficiently reliable information to determine which grants were acquitted. In relation to the NLP administered by DPIE, the ANAO found that the majority of grant acquittals provided by States/Territories had not technically met legislative requirements. 2322 NLP grants (62.2%) valued at \$151.3 million (66.3% of the total value of grants) had not been acquitted. This includes 787 projects (worth \$97m) that continued to receive funding over three financial years although prior year(s) grant(s) remained unacquitted. ³ With respect to programs administered by Environment Australia, the ANAO found that:

- 1016 grants (74.2%) valued at \$5.7 million (75.4% of the total value of grants) under the OBT and STB community grants programs had not been acquitted; and
- Environment Australia and Greening Australia place different interpretations on the OBT Service Delivery contract acquittal requirements.

20. Consequently, both DPIE and Environment Australia are not well positioned to determine whether Commonwealth funding has been spent for its intended purposes. The ANAO considers that DPIE and Environment Australia should be more diligent in following-up overdue grant acquittals. The implementation of incentives and sanctions by DPIE and Environment Australia, such as those outlined in this report, would make compliance with grant acquittal requirements more likely. The ANAO notes that other departments with grant programs, such as the Department for Employment, Education, Training and Youth Affairs, require their grant recipients to acquit grant payments before subsequent payments will be made and submit audited financial statements or a final statement of expenditure.

Incentives and sanctions

21. The ANAO found that DPIE and Environment Australia rarely use or apply available incentives or sanctions to encourage compliance with program terms and conditions. This could well have contributed to DPIE and Environment Australia receiving insufficient project performance reports and grant acquittals.

Consequently, this has not assisted DPIE and Environment Australia to determine whether, as a whole, Commonwealth-funded projects are contributing effectively to program objectives and whether grant funds have been spent for their intended purposes.

22. Although care needs to be taken in their use, the ANAO suggests that the introduction of, or the application of existing incentives and graduated sanctions within agreements could assist DPIE and Environment Australia to achieve more timely program outputs such as grant acquittals and project performance reports.

23. With respect to service delivery agencies, linking progressive funding payments to actual performance against milestones in the contracts would give the Commonwealth greater capacity to influence both the timing and quality of performance. In some instances this may involve delaying future payments until the relevant information is provided.

24. Although the ANAO recognises the difficulty faced by departments in deciding whether to apply sanctions to community landcare groups, the ANAO suggests that compliance-based incentives and the use of appropriate sanctions should be considered when grant terms are not met. The draft NHT Partnership Agreements are an improvement on the past NLP Partnership Agreements. However, the ANAO notes that experiences from other programs (such as the Building Better Cities program) indicate that the range of incentives and sanctions currently included could be broadened to further improve performance.

Cash management

25. The ANAO considers that there is scope for improving cash management practices in both DPIE and Environment Australia. While recognising that there are a range of available options, the ANAO has calculated, for example, that the Commonwealth could save \$9.9 million over the life of the NHT by moving to quarterly payments of grants to service delivery agencies. Such a move can also provide a financial incentive for grant recipients to better comply with grant acquittal requirements.

Commonwealth-funded administrative costs

26. The ANAO's examination of Commonwealth funds used to administer the programs found that:

- total administrative costs incurred or funded by DPIE and Environment Australia on average are about 5.2 per cent of landcare program costs.⁴ Service delivery agency administrative costs funded by the Commonwealth are also significant. Although these costs do not appear to be excessive, on average, there is a wide variation between programs. DPIE and Environment Australia have not benchmarked the relevant program administrative costs and so do not have a sound basis for determining whether the Commonwealth is receiving value-for-money from the administration provided by service delivery agencies; and
- on average over 44 per cent of administrative costs incurred directly by DPIE and

Environment Australia are spent on input controls (that is, on project application and assessment/contract negotiation processes) notwithstanding the scrutiny embodied in the One-Stop-Shop process at the State/Territory and regional levels.

27. The ANAO suggests that DPIE and Environment Australia should consider benchmarking the use of service delivery agency administration activities and costs between programs so as to assist in ensuring that the Commonwealth is receiving value-for-money. In addition, the ANAO considers that DPIE and Environment Australia should be able to place greater reliance on the scrutiny of applications by regional and State assessment panels as part of the One-Stop-Shop process, assess and prioritise the risk to the Commonwealth, and then allocate Commonwealth resources accordingly.

Competitive tendering

28. A transparent and contestable process for delivering program inputs is important to demonstrate value-for-money, probity and accountability within an administrative system. The ANAO considers that there is scope for introducing competitive tendering for the delivery of NHT programs. Competitive tendering offers the potential to reduce administrative costs for the delivery of NHT programs. However, a balance needs to be struck between the costs which may reasonably be incurred in promoting competition and the benefits to be obtained. The administrative arrangements for the new NHT are yet to be finalised. Therefore, the ANAO considers that this situation provides agencies with the opportunity to make program delivery more open and contestable in the pursuit of value-for-money for the Commonwealth.

Other financial risks

29. The ANAO considers that DPIE and Environment Australia have taken, or are taking, appropriate steps to manage the risks of fraud for the landcare programs examined by the ANAO. However, the risk of cost-shifting is likely to increase because of the injection of extra Commonwealth funding for natural resource management and environmental programs through the NHT.⁵ The ANAO considers that the management of the cost-shifting issue will require greater attention from DPIE and Environment Australia in the future. One method to manage the risks of cost-shifting is for the Commonwealth to more clearly define in the Partnership Agreements with States and Territories the types of projects and project activities covered by the programs.

30. The ANAO considers that the One-Stop-Shop process reduces the risk of 'double-dipping' by grant recipients.⁶ However, the ANAO suggests that there is a serious risk of double-dipping by non-government service delivery agencies as they:

- generally can apply for grant funds under most Commonwealth and State/Territory landcare programs; and
- currently do not disclose all funding sources for projects related to their service delivery functions.

Natural Heritage Trust

31. The ANAO is concerned that, at the current rate of progress, it could take up to eighteen months to finalise the NHT Partnership Agreements. As a result the Commonwealth will not be able to adequately assess NHT program performance in 1997-98 and performance assessment in 1998-99 could also be constrained - leaving only three of the six financial years of the NHT remaining. The ANAO considers that the Commonwealth should make every effort to finalise the preparation of the NHT Partnership Agreements as soon as possible.

32. The ANAO notes that a cross-portfolio implementation group has been established to assist in addressing monitoring and evaluation issues as part of future NHT Partnership Agreements.

Recommendations and Responses

Set out below are the ANAO's recommendations with Report paragraph reference and DPIE's and Environment Australia's abbreviated responses. More detailed responses and any ANAO comments are shown in the body of the report. The ANAO considers that DPIE and Environment Australia should give priority to Recommendations Nos. 1, 3, 4, 5, 6, 7, 9 and 12.

Recommendation No.1 Para. 3.10	The ANAO <i>recommends</i> that DPIE and Environment Australia, in consultation with States, Territories and other service delivery agencies, develop operational objectives for programs under the Natural Heritage Trust that are concise, realistic and measurable outcomes-oriented statements of what the program aims to achieve.
	Response: DPIE and Environment Australia agree with this recommendation.
Recommendation No.2 Para. 3.26	The ANAO <i>recommends</i> that DPIE and Environment Australia seek to ensure that the final Natural Heritage Trust Partnership Agreements: (a) explicitly state the respective roles and responsibilities of all parties to the agreement; (b) define consultation arrangements for any shared roles and responsibilities; and focus the primary role of the Commonwealth on strategic planning and performance assessment commensurate with appropriate risk assessment.
	Response: DPIE and Environment Australia agree with this recommendation.
Recommendation	The ANAO <i>recommends</i> that DPIE and Environment Australia:

<p>No.3 Para. 3.40</p>	<p>(a) develop more appropriate performance indicators, targets and milestones to assist in measuring the performance of Natural Heritage Trust programs consistent with the ANAO and Department of Finance <i>Performance Information Principles Better Practice Guide</i> (1996); and</p> <p>(b) seek from State/Territory and other service delivery agencies, consistent and relevant information on demand patterns for the Natural Heritage Trust programs.</p>
	<p>Response:</p> <p>DPIE and Environment Australia agree with this recommendation.</p>
<p>Recommendation No.4 Para. 3.70</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia:</p> <p>(a) in conjunction with the States, Territories and other parties to the agreements, determine cost effective options to strengthen the quality and consistency of the needs assessment process for assistance under the Natural Heritage Trust (for example, through accelerating efforts to complete the National Land and Water Audit, benchmarking techniques and facilitating better practice in regional assessment);</p> <p>(b) review Commonwealth guidelines and policies relating to the representational balance and resourcing requirements for assessment panels;</p> <p>(c) explore options for further involving local government bodies in the administration and delivery of Natural Heritage Trust programs to maximise the compatibility and the efficient integration of public sector investment;</p> <p>(d) consider options for further developing and applying strategic research from bodies such as the Land & Water Resources Research & Development Corporation to the needs assessment process of the Natural Heritage Trust;</p> <p>(e) ensure that there is, as far as practicable, a transparent, consistent and objective determination and treatment of public and private benefits in project assessments under the Natural Heritage Trust;</p> <p>(f) ensure that when determining projects to be funded under the Natural Heritage Trust, full consideration is given to the compatibility of State/Territory and local government natural resource management and environmental programs policies and practices; and</p> <p>(g) ensure proposed expenditure on each project is disaggregated</p>

	sufficiently to allow DPIE and Environment Australia to compare projects of similar nature to help determine whether the Commonwealth is receiving value-for-money.
	Response: Environment Australia agrees with this recommendation. DPIE also agrees but notes that element (g) is primarily directed towards Environment Australia.
Recommendation No.5 Para. 3.91	The ANAO <i>recommends</i> that DPIE and Environment Australia: (a) include clear specifications of program outcomes and deliverables within service delivery contracts (including Partnership Agreements) under the Natural Heritage Trust; and (b) develop appropriate performance information to link Natural Heritage Trust programs with key State and Territory natural resource management and environment policies and programs (such as land clearing and the use of water and land resources).
	Response: DPIE and Environment Australia agree with this recommendation.
Recommendation No.6 Para. 3.123	The ANAO <i>recommends</i> that DPIE and Environment Australia develop a stronger client focus for Natural Heritage Trust programs in conjunction with the States and Territories and other service delivery agencies by: (a) facilitating planning and budgeting by introducing for example, two- to three-year service delivery contracts as appropriate; (b) establishing risk management processes for reducing the time for project approvals under the Natural Heritage Trust using methods such as: (i) joint Commonwealth-State assessment rather than sequential consideration of projects, (ii) progressively allocating discretionary block grants to regional catchment committees where appropriate accountability and performance measurement mechanisms have been put in place; and (iii) broad-banding funding for regional initiatives where it complements other programs such as the Rural Adjustment Scheme; (c) making every effort to ensure that program priorities are properly determined and incorporated within the program guidelines before application forms and guidelines are sent to

	<p>client groups;</p> <p>(d) evaluating whether the One-Stop-Shop concept should be expanded, to facilitate the joint promotion and administration of related Commonwealth and State/Territory programs and reduce client confusion; and</p> <p>(e) considering the merits of funding larger, high priority, catchment level projects over for example, two- to three-year periods rather the larger numbers of smaller grants made under former programs.</p>
	<p>Response:</p> <p>Environment Australia agrees with this recommendation. DPIE agrees but has reservations in relation to element (d) in terms of the demands it may place on assessment panels.</p>
<p>Recommendation No.7 Para. 3.177</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia ensure that:</p> <p>(a) Natural Heritage Trust programs' performance disclosures adequately meet Commonwealth annual reporting requirements by focussing more on program outcomes rather than just program activities;</p> <p>(b) States, Territories and non-government service delivery agencies be required to provide to the Commonwealth an annual report on progress in achieving the objectives, targets and milestones of the relevant programs under the Natural Heritage Trust;</p> <p>(c) progress against all objectives, major targets and milestones is reported to the Parliament as part of the Commonwealth's annual reporting requirements under the <i>Natural Heritage Trust of Australia Bill 1996</i>;</p> <p>(d) management information systems are sufficiently accurate and reliable so that information such as project status and the achievement of milestones is recorded and used as part of the program management and reporting system;</p> <p>(e) there is consistency and compatibility between the two agencies in the design and structure of a suitable management information system so that reporting requirements can be readily cross referenced;</p> <p>(f) the feasibility of extending the Commonwealth's management information system to the States and Territories, or facilitating compatibility of systems, are examined (so as to reduce duplication</p>

	<p>of effort and costs and assist with the efficient sharing of information as part of the partnership approach);</p> <p>(g) outstanding project performance reports are followed-up more diligently; and</p> <p>(h) a consistent process for independently monitoring project performance reporting by all service delivery agencies is developed and implemented.</p>
	<p>Response:</p> <p>DPIE and Environment Australia agree with this recommendation.</p>
<p>Recommendation No.8 Para. 4.27</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia:</p> <p>(a) maintain appropriate records to monitoring the receipt of grant acquittals;</p> <p>(b) ensure that all grant acquittals provided by service delivery agencies and other grant recipients meet legislative and contractual requirements and appropriate accountability and probity provisions;</p> <p>(c) institute a more rigorous approach to follow-up overdue grant acquittals;</p> <p>(d) in conjunction with the States/Territories, develop a strategy for delegating the acquittal of landcare grants to responsible State/Territory officials; and</p> <p>(e) ensure that the statement of funds spent under all programs are independently audited.</p>
	<p>Response:</p> <p>DPIE and Environment Australia agree with this recommendation.</p>
<p>Recommendation No.9 Para. 4.40</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia consider introducing incentives and graduated sanctions into agreements/contracts for the Natural Heritage Trust initiatives that:</p> <p>(a) link payments to the achievement of program milestones/targets;</p> <p>(b) withhold further Natural Heritage Trust funding until current or previous grant acquittal and/or project performance reporting requirements are met; and</p> <p>(c) allow a carry forward of funds to the following year or accelerated implementation of future activities as appropriate.</p>

	<p>Response:</p> <p>DPIE and Environment Australia agree with this recommendation.</p>
<p>Recommendation No.10 Para. 4.54</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia, in implementing cash management procedures under the Natural Heritage Trust:</p> <p>(a) maintain appropriate records to allow unspent grant funds at year end to be monitored;</p> <p>(b) consider moving towards quarterly payment of grants funds to service delivery agencies;</p> <p>(c) give service delivery agencies responsibility for:</p> <p>(i) determining the timing of payment to grant recipients, consistent with the grant recipient's funding needs; and</p> <p>(ii) providing a financial report to the Commonwealth each quarter indicating how the previous quarter's funds were distributed by service delivery agencies to grant recipients; and</p> <p>(d) where it has the discretion to do so, time large financial assistance payments to the States and Territories and other service delivery agencies to coincide with peak taxation receipts.</p>
	<p>Response:</p> <p>Environment Australia agrees with this recommendation. DPIE agrees but has reservations in relation to element (d) in terms of the implications for staff resources.</p>
<p>Recommendation No.11 Para. 4.66</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia:</p> <p>(a) examine the benefits of benchmarking service delivery agency administration activities and costs between programs to ensure the Commonwealth is receiving value-for-money; and</p> <p>(b) ensure that administrative resource allocations appropriately match identified sources of risk to the Natural Heritage Trust.</p>
	<p>Response:</p> <p>DPIE agrees with this recommendation. Environment Australia also agrees but with reservation. The reservation relates to the resource implications that implementing this recommendation would have.</p>
<p>Recommendation No.12 Para. 4.73</p>	<p>The ANAO <i>recommends</i> that DPIE and Environment Australia consider open, competitive tendering arrangements, where appropriate, for the delivery of the Natural Heritage Trust programs so that value-for-money options can be fully market</p>

	tested.
	Response: DPIE agrees with this recommendation. Environment Australia also agrees but with reservation. The reservation relates to the need to take into account cases where competitive tendering can not be easily pursued.
Recommendation No.13 Para. 4.100	The ANAO <i>recommends</i> that DPIE and Environment Australia: (a) develop an agreed position with the States and Territories as to what types and/or range of projects the Natural Heritage Trust will and will not fund and clearly outline this within the Natural Heritage Trust Partnership Agreements or attached schedules, as appropriate; and (b) ensure that non-government service delivery agencies separately disclose in their annual program (or equivalent) funding received from <u>all</u> Commonwealth and State/Territory sources that is to be applied to areas covered by their service delivery functions.
	Response: DPIE and Environment Australia agree with this recommendation. DPIE notes that because element (b) relates to non-government service providers it does not currently relate to the Department.
Recommendation No.14 Para. 5.6	The ANAO <i>recommends</i> that DPIE and Environment Australia complete the preparation of Natural Heritage Trust Partnership Agreements, including the attachments containing program targets and milestones, as a matter of urgency to ensure efficient and effective program delivery.
	Response: DPIE and Environment Australia agree with this recommendation.

1

Department of Primary Industries and Energy & Environment Australia 1997, *Natural Heritage Trust: Guide to Community Group Applications 1997-98*, DPIE, Canberra, p.1.

2

Where there is a single application form and assessment process for similar Commonwealth and State/Territory programs (see para. 2.14 and Figure 4).

3

Although the provision of funding in the absence of grant acquittals is not contrary to current grant conditions, the ANAO considers that its continuation over multiple years does not represent good management practice.

4

Administration costs incurred directly by DPIE and Environment Australia are generally funded from running costs and not program costs. For the distinction between running costs and program costs, please refer to the Glossary.

5

Cost-shifting is the practice of using Commonwealth monies to fund activities or programs that were formerly funded by State/Territory or local governments.

6

Double-dipping occurs where a grant recipient receives funding from two or more different sources to undertake the same project activity thus resulting in the grant recipient receiving funds greater, in aggregate, than their entitlement. Double-dipping should not be confused with the practice whereby projects legitimately receive funding from different sources.

1. Introduction

This chapter sets out the background, objectives, scope and methodology for the audit as well as previous audit coverage.

Background

1.1 The State of the Environment Advisory Council noted in its report entitled *Australia: State of the Environment 1996* that sustainable development is arguably the central issue of our time. Its basic aim is to meet the needs of the present without compromising the ability of future generations to meet their own needs. Central to the implementation of sustainable development is the management of natural resources. However, current research indicates that we still have some way to go before reaching sustainable development. It is difficult to calculate with any precision. One estimate from the Land & Water Resources Research & Development Corporation put the financial losses from land and water degradation at \$1.4 billion per annum. Within the Murray Darling Basin alone, more than thirty species of plants and animals have become extinct and another seventy are critically endangered.

1.2 Commonwealth involvement in addressing land degradation has been progressively increasing since the 1980s. Tax concessions for land conservation activities were introduced in 1980. The Commonwealth introduced the National Soil Conservation Program within the then Department of Primary Industry in 1983. Tax

concessions for tree clearance also were removed in 1983. In recognition of the national significance of natural resource management the Commonwealth and the States established the Murray-Darling Basin initiative in 1985. The then Prime Minister's 1989 Statement on the Environment provided the initial funding for the Save the Bush (STB) and One Billion Trees (OBT) Programs. At this time the Commonwealth, States and Territories also announced the Decade of Landcare which provided a strategic framework for inter-governmental cooperation in addressing the sustainability of natural resource management.

1.3 In 1992 the Commonwealth, States and Territories and the Australian Local Government Association signed the National Strategy for Ecologically Sustainable Development which provided the program framework for sustainable development. The Strategy was reinforced by the then Prime Minister's 1992 Statement on the Environment which provided additional financial resources to enhance the implementation of the Decade of Landcare initiative and the National Landcare suite of programs (including the STB and OBT programs) now administered through the Department of Primary Industries and Energy (DPIE) and Environment Australia (within the Department of the Environment, Sport and Territories).

1.4 In 1996-97, the Government introduced the Natural Heritage Trust (NHT) which is to involve \$1.25 billion in Commonwealth financial assistance over six financial years from 1996-97 to 2001-02 for activities related to conservation and sustainable management of Australia's land, water and biodiversity.

Audit objectives

1.5 The specific objectives of the audit were to:

- benchmark administrative practice in the design and delivery of landcare related programs within DPIE and Environment Australia;
- identify and provide a comprehensive analysis of any lessons learned from the Partnership Agreements between DPIE and the States/Territories to assist in the development and implementation of programs under the Natural Heritage Trust;
- determine the scope for improvements in efficiency, economy and coordination in Commonwealth natural resource management and environment programs; and
- assess the administrative effectiveness of Commonwealth programs through case studies that illustrate better practice in addressing land degradation.

Audit scope

1.6 The audit scope encompassed Commonwealth natural resource management and environmental conservation program elements directed primarily at rural Australia. The programs examined and the agencies that administer them are as follows:

**Department of Primary Industries
and Energy**

Environment Australia

National Landcare Program	One Billion Trees Program
National component	Save the Bush Program
Commonwealth-State component	River Murray Corridor of Green Program
Community component	National Corridors of Green Program
Drought Landcare Program (DPIE element)	Waterwatch Program
	Grasslands Ecology Program
	Drought Landcare Program (EA element)

1.7 While there are other program areas of relevance to the audit scope (such as the Feral Pests Program and the Murray-Darling Basin Commission), the audit concentrated on those core programs that would enable a timely report to be provided to the Parliament soon after the commencement of the Natural Heritage Trust.

Audit methodology

1.8 The audit methodology was based on a normative model used to measure actual performance against suitable benchmarks that are consistent with better practice. However, comparative information on the *relative* performance of different but related program elements also provides an illustration of how performance can be significantly improved through information exchange and coordination between relevant program managers.

1.9 Current administrative practice was established through:

- interviews with DPIE and DEST program managers
- a review of the agreements with service providers and grant recipients,
- an examination of program files and management information systems;
- a review of relevant research reports and specific program evaluations; and
- consultations with key stakeholders including officials from State and Territory agencies, environment and primary industry groups and representatives from community and landcare groups.

1.10 Better practice benchmarks and the audit criteria were developed from six primary sources as follows:

- ANAO 1997, *Better Practice Guide for the Administration of Grants*, AGPS, Canberra;
- ANAO and Department of Finance 1996, *Performance Information Principles: Better Practice Guide*. AGPS, Canberra;
- Joint Committee of Public Accounts 1995, Report No. 342 *The Administration of*

Specific Purpose Payments: A focus on outcomes, AGPS, Canberra;

- ANAO 1994, *Best Practice Guide to the Administration of Grants*, AGPS, Canberra;
- ANAO 1993, *An Audit Commentary on Aspects of Commonwealth-State Agreements*, Audit Report No. 6 1993-94, AGPS, Canberra; and
- Council of Australian Governments 1991, *Working Group on Tied Grants: Final Report to the Special Premiers' Conference in Perth*, unpublished.

Previous audit coverage

1.11 In 1994-95 the ANAO published a preliminary study on the National Landcare Program (NLP) administered by DPIE.¹ The report contained two recommendations. The first was that DPIE amend its procedures to adopt a risk-based approach for the selection, approval and monitoring of NLP projects. Very small projects were generally administered in the same manner as the largest projects. DPIE accepted that there were potential administrative efficiency advantages from the application of risk management principles to NLP projects and advised that an evaluation strategy on this basis had been proposed to the States/Territories.

1.12 The second ANAO recommendation was that DPIE link or integrate its Landcare databases and pursue opportunities for electronic data interchanges with the States and Territories to improve efficiency and effectiveness and minimise duplication. DPIE advised in March 1995 that a program management database was in the final stages of development. It contained financial, administrative and review data on all NLP projects. DPIE expected the database to assist in project and program monitoring and evaluation and to improve the efficiency of the program's financial administration. DPIE also advised that it was discussing electronic data transfer between the States and Territories and its own database, but that there were some difficulties due to the variety of software and hardware packages in use.

1.13 A full audit was deferred to allow the implementation of the provisions of the Partnership Agreements with the States/Territories which were signed between May and December 1994.

Audit conduct

The audit was conducted in accordance with the ANAO Auditing Standards. The audit commenced in September 1996 and the bulk of the fieldwork was conducted between October 1996 and March 1997. The total cost of the audit was \$413,600.

2. The Context for Commonwealth Landcare Programs

This chapter discusses some of the key environmental, socio-economic and intergovernmental factors influencing program design, the key features of program administration and an outline of the Natural Heritage Trust of Australia Bill 1996.

The state of Australia's rural environment

2.1 Agriculture is Australia's most extensive form of land use, taking up about 60 per cent of the country's area whereas conservation reserves take up a little over five per cent of land area, and forestry about 4.8 per cent. ² Australian soils are old and relatively infertile with only six per cent of our land being arable. ³ Australia is also the driest of all the world's inhabited continents with the lowest percentage of rainfall as run-off, the lowest amount of water in rivers and the smallest area of permanent wetlands. ⁴ Although Australia has a very low population density by world standards, more than 80 per cent of Australia's population live on just one per cent of Australia's land surface. ⁵ Appendix 2 illustrates land use and vegetation clearance in Australia.

2.2 The State of the Environment Advisory Council recently observed that:

'much of Australia's agricultural land is ... under pressure from erosion, loss of vegetation cover and overuse of irrigation water. Problems such as soil salinity, acidification and rising groundwater all appear to be increasing in severity'. Soil fertility is declining in one-third of all cropped land, more than offsetting the improvement in the fertility of 10 per cent of land.' ⁶

2.3 Land degradation forms, causes and effects are summarised in Table 1.

2.4 Agricultural activities such as land clearing, cultivation practices, overgrazing and the use of pesticides, have opened Australia's land resource to degradation problems. ⁷ Improvements in agricultural practices have come with knowledge gained from experience and research, however, the natural resource base continues to experience pressures from unsustainable practices in some quarters. In some instances incentives have not been conducive to land users implementing sustainable natural resource management practices (for example, primary producers were able to claim a tax deduction for 'the destruction and removal of timber, scrub or undergrowth indigenous to the land' from 1936 to 1983). ⁸ In addition, State and Territory governments also have the power to influence land use practices either directly (through pastoral leases on Crown land) or by other legislative and regulatory means (such as land clearance permits).

Table 1 - Forms, causes and effects of land and water degradation

Form	Cause and effect
Soil structure decline	The structure of many Australian soils is naturally poor or has been damaged by land uses such as tillage and over-grazing. Poor structure increases run-off and erosion and reduces productivity. It is costly to repair.
Water logging and salinity	Water tables have risen in parts of Australia as a result of land clearing and irrigation, causing water logging and salinisation. These effects reduce productivity and encourage erosion.
Water and wind erosion	Rates of soil erosion, even on the best managed land, may be ten times greater than rates of soil formation. On sloping lands, soil erosion poses

	a threat to the long-term sustainability of farming.
Soil nutrient balance	Australian soils are infertile, making fertiliser use an essential part of most farming systems. The continental nutrient balance is positive - that is, more nutrients are being added than are being used or lost - but nutrients may be accumulating in fertilised pastures while declining in more naturally fertile soils.
Soil acidification	Acidification affects most agricultural land, leading to toxicity, poorer water and nutrient use and so lower yields. Causes include the use of fertilisers and legumes, and natural weathering. Applying lime is an effective remedy, but current rates of application are inadequate.
Water quality	Water quality in large cities is generally high, but in some rural and remote communities, it is less satisfactory. Problems are usually caused by a combination of micro-organisms, chlorination by-products, taste, odour, algal toxins, iron, manganese, turbidity, salt and 'hardness'.
Water quantity	Australia is effectively mining its groundwater, with reserves being used much faster than they are replenished. Irrigation uses the most water, accounting for 70 per cent of all the 'developed' (i.e. ground and surface water) resource. Next come the major cities, with most of this use being domestic.

Source: State of the Environment Advisory Council 1996, *Australia: State of the Environment 1996*, CSIRO Publishing, Victoria, p. ES-19.

2.5 According to the State of the Environment Advisory Council:

- in an average year in Australia about fourteen billion tonnes of soil are moved by erosion.⁹ (This is about nineteen per cent of the total soil moved each year globally, even though Australia is only five per cent of the world's land area); and
- an estimated 29 million hectares of mainly agricultural lands are regarded as significantly acidified in at least the surface layers.¹⁰

2.6 Soil acidification is considered a 'sleeping' land degradation problem, with potential economic costs far greater than those of the more obvious problems.¹¹ The Land & Water Resources Research & Development Corporation (LWRRDC) considers that '*in some ways acidification is the most serious form of degradation, as there are few cost-effective solutions for badly affected land in regions that are not located near sources of lime, or for low-profit farming systems*'.¹²

2.7 Salinity in both dryland and irrigated areas is now estimated to affect 1.2 million hectares nationwide.¹³ By 2010 dryland salinity in south-west Western Australia alone is expected to reach 2.9 million hectares, or sixteen per cent of cleared land. Fifty-two per cent of the run-off in the south-west drainage division that was suitable for human purposes in 1985 has since been degraded by salt.¹⁴ The water from several reservoirs in South Australia is now useless for human consumption due to salinity¹⁵.

Land degradation and the rural economy

2.8 Land degradation has a significant economic effect. According to the Murray-Darling Basin Commission:

- agricultural production loss in the Shepparton region of Victoria in 1988 was estimated to be \$27 million per annum, rising to \$41 million per annum by 2025, with a loss of 3500 jobs and \$78 million in export income;
- lost production in irrigated areas of NSW due to salinity is expected to rise to \$100 million per annum by 2015 with 25 per cent of irrigated land lost to production if no remedial action is taken; and
- lost production through dryland salinity is estimated to cost NSW primary producers \$500 million per year by 2050. ¹⁶

2.9 The gross value of Australian agricultural commodities for the year ended 30 June 1994 was \$23.5 billion, of which \$17.6 billion was exported; comprising 21 per cent of the total value of Australia's exports of goods and services. ¹⁷ LWRRDC estimates that the costs in lost production, and in the prevention and remedial treatment of land degradation problems to be \$2.5 billion per year. ¹⁸

2.10 The State of the Environment Advisory Council found that *'since the 1980s concern about land degradation and the decline in nature vegetation, has been widespread'*. ¹⁹ However, rectifying land degradation problems comes at a cost. Land users may be required to fence access to water courses, quarantine fields and pastures, reduce stocking levels, farm less profitable crops (at least in the short-term), purchase and plant shrubs and trees, eradicate feral animals and plants, and conduct major earth works. There is much anecdotal evidence that some primary producers have instituted more sustainable agricultural practices at their own expense - in some cases before land degradation problems became widely known. However, the Prime Minister's Science and Engineering Council estimated that between 50 and 70 per cent of producers may not have the financial resources to implement sustainable management practices. ²⁰ In the four decades from 1950 to 1990 the terms of trade declined for agricultural produce. The State of the Environment Advisory Council notes that farm output increased by 250 per cent from 1950 to 1989. ²¹ At the same time costs of production fell due to efficiency gains by Australian primary producers. However, 'real' prices for agricultural commodities also fell. The real net value of agricultural production in 1995-96 is 40 per cent of its level in the 1950s ²² Figure 1 illustrates the decline in farmer's terms of trade to 1993-94.

The basis for government action

2.11 Governments have acted to protect Australia's natural resource bases - particularly where there are off-site effects such as rising water tables and downstream pollution and where existing policies or incentives (such as taxation incentives for tree clearing) have had unintended effects. While State, Territory and local governments have had prime responsibility for land management matters, the

increasingly national scale of land and water degradation and Australia's international obligations to protect the environment, have resulted in progressively greater expenditure by the Commonwealth. The NHT is the latest Government commitment in this area. However, State and Territory Governments still provide the bulk of government funding for natural resource management and off-reserve vegetation conservation (for example, for the three years from 1993-94 to 1995-96, the aggregate State and Territory expenditure was five times the Commonwealth's expenditure in these areas).

Figure 1 - Farmers' terms of trade ²³

Source: Australian Bureau of Agricultural and Resource Economics 1994, *Commodity Statistical Bulletin 1994*, ABARE, Canberra, p. 19.



2.12 The range of Commonwealth and State/Territory programs dealing with natural resource management and off-reserve vegetation conservation is very broad as can be seen from Figure 2 below.



An overview of Commonwealth programs

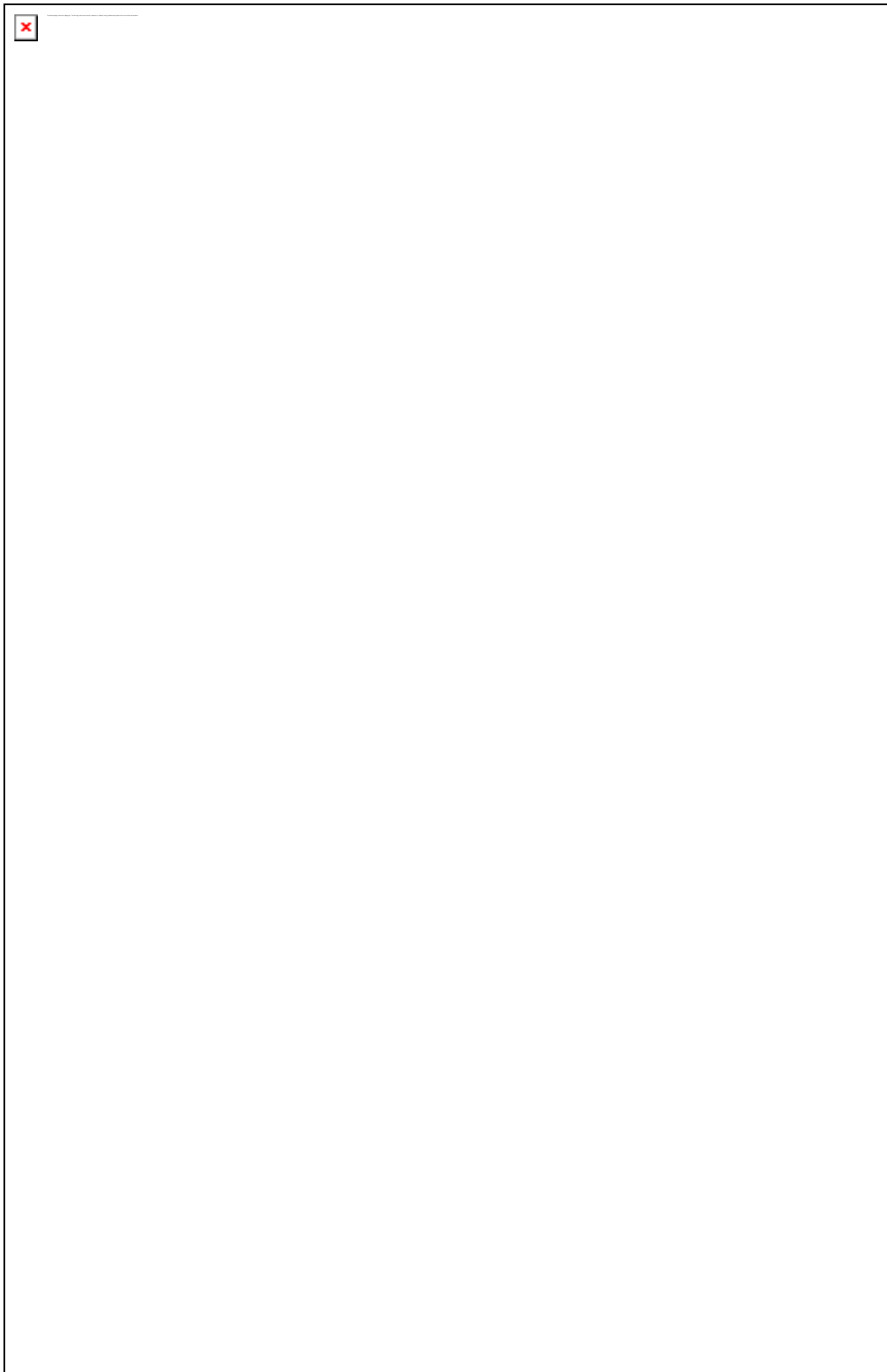
2.13 Since 1992, the NLP, administered by DPIE, and related Environment Australia programs have formed a suite of programs that have the overarching vision to '*raise the long term productivity and ecological sustainability of Australia's land, water, vegetation and other natural resources to meet the needs of current and future generations*'.²⁴ Figure 3 summarises the programs examined by the ANAO.

2.14 The allocation of funds for community and Commonwealth-State Partnership projects under the NLP elements in DPIE, the Murray Darling Basin Commission and Environment Australia are coordinated through a One-Stop-Shop process established in 1992. The arrangements were designed to simplify procedures for landcare and other community groups when applying for funds from the wide range of programs available from different Commonwealth agencies. The process involves a single application form with common application guidelines, a single assessment process and a single report. Figure 4 summarises the One-Stop-Shop process. Administrative arrangements for the NHT have involved broadening the One-Stop-Shop concept to include additional related programs (for example, National Rivercare Initiative, Coast and Clean Seas Initiative and Farm Forestry) that have a community grants component. National priorities for the programs will be set by the Commonwealth Ministers for Primary Industries and Energy and the Environment. An emphasis will continue to be given to projects that are broadly consistent with the National Strategy for Ecologically Sustainable Development and the Decade of Landcare Plans.

2.15 DPIE and Environment Australia consider the merit of community project submissions assessed through the One-Stop-Shop process following ranking by State or Territory assessment panels (SAPs). In some States and Territories regional assessment panels (RAPs) also consider program eligibility and rank projects according to criteria set out in the guidelines. A wide cross section of stakeholders

including primary producers; non-government organisations (such as Greening Australia and the Australian Trust for Conservation Volunteers); State, Territory and local governments; and community representatives are involved in the initial assessment process before consideration by the Commonwealth Ministers. The National Landcare Advisory Committee, comprising a similarly wide cross-section of interest groups, has provided Ministers with direct feedback on 'client' perspectives but does not advise directly on project applications.





2.16 Cooperative action between governments, industry and the community is the main approach promulgated through the NLP in both DPIE and Environment Australia. Program strategies recognise the important direct responsibilities for natural resource management that lie with State/Territory and local governments and individual land holders.

DPIE program elements

2.17 The *Natural Resources Management (Financial Assistance) Act 1992* provides the legislative framework for the NLP administered by DPIE. The goal of financial assistance under the NLP is to enhance the efficient, sustainable and equitable management and development of Australia's natural resources for the benefit of all Australians. Strategies for achieving the NLP goal are outlined below in Table 2.

2.18 The NLP in DPIE comprises three principal components: a community component; a national component and a Commonwealth/State component. A summary of each component is included at Table 2.

2.19 Commonwealth funding allocations to NLP program elements in DPIE account for some 87 per cent of program expenditure. Expenditure is set out below in Table 3.

Table 2 - DPIE landcare programs

NATIONAL LANDCARE PROGRAM		
Program objective¹		
To enhance the efficient, sustainable and equitable management and development of Australia's natural resources for the benefit of all Australians.		
Program strategies¹		
promoting community, industry and government partnerships in the management of natural resources;		
establishing institutional arrangements which will encourage efficient, equitable and sustainable resource use and management;		
contributing to the enhancement of the long term productivity of Australia's natural resources; and		
developing approaches for the efficient and equitable allocation of resources which help to resolve conflict over access to resources.		
Component	Stated description²	Program delivery
National component	The National component of the NLP is used to deal with situations where the Commonwealth in its own right can address sustainable natural resource management issues or to target activities where additional effort is required to achieve national priorities and objectives.	The Commonwealth directly administers funding for a range of projects carried out by government and non-government agencies and individuals.
Commonwealth-State component	The Commonwealth-State component of the NLP comprises projects and activities developed by the Commonwealth and States to jointly undertake broad natural resource management strategies. State agencies, local governments, non-governmental organisations, industry and community groups are encouraged to work together to develop projects under this component. Through Commonwealth-State partnership agreements the Commonwealth encourages the development of broad packages of measures designed to achieve	Project grants are administered by the States and Territories according to formal partnership agreements between the Commonwealth and the States. Grant applications are assessed by community-based assessment panels and include government representation.

	sustainable resource use and viable industries.	
Community component	Enables landholder-based community groups to identify and acquire the information, skills and resources necessary to understand their shared problems and to develop and apply practical solutions. Grants to supplement group resources are provided for projects to advance program aims through activities such as planning, demonstrations and trials, exchanging information, upgrading skills, and assessing resource condition.	The assessment panels review funding applications for a variety of Commonwealth and State/Territory programs under the umbrella of the NLP One-Stop-Shop process.

1 Source: NLP Partnership Agreements

2 Source: Department of Primary Industries and Energy 1995, *National Landcare Program: Report on the Operations of the Land and Water Elements 1993-94*, AGPS, Canberra, pp. 7-9, 11.

Table 3 - Commonwealth funding to the National Landcare Program elements of the Primary Industries and Energy portfolio

National Landcare Program Elements (DPIE)	1993-94\$(m)	1994-95\$(m)	1995-96\$(m)	1996-97¹\$(m)
Community Component	15.8	17.4	20.0	19.0
Commonwealth-State Component				
Catchment management	21.3	19.9	16.3	8.0
Land management and sustainable agriculture	13.7	14.9	16.3	17.1
Regional initiatives	6.5	7.8	7.5	9.4
Water services	10.7	6.3	15.3	3.9
Murray-Darling Basin Drainage	5.4	5.7	5.7	5.8
National Component	5.3	3.0	3.8	4.1
Drought Landcare Program (DPIE element)	-	2.9	3.7	-
Land & Water Resources Research & Development Corporation (LWRRDC)	11.1	11.1	10.4	9.6
Total Primary Industries and Energy Portfolio	89.8	89.0	99.0	76.9

1 estimated from Ministerial allocations.

Source: DPIE financial records.

Environment Australia program elements

2.20 'Rebuild the Bush' is a description of a suite of DEST programs administered by the Biodiversity Group within Environment Australia. Programs are related to both the NLP and the MDBC but are more specifically focussed on activities such as the protection of remnant native vegetation, monitoring water quality and revegetation of degraded areas. Table 4 outlines individual program objectives and delivery

mechanisms.

2.21 In total, these programs accounted for some thirteen per cent of total Commonwealth expenditure on natural resource management and conservation. Table 5 outlines the financial details.

Table 4 - Environment Australia programs

Program	Stated objective	Program delivery
One Billion Trees	To enthuse, educate and empower the community to strategically re-establish and maintain Australia's cover of native trees and associated vegetation in the interests of biodiversity and sustainability.	The Community Grants component is delivered directly by Environment Australia with assistance from the States and expert groups involved with the Project Assessment Panels for the NLP One-Stop-Shop. The Service component is delivered by Greening Australia with the distribution of funding flowing from the national body, Greening Australia Limited (GAL) to each of the State/Territory Greening Australia bodies. The Urban Forests component is delivered through the States/Territories while a national component is delivered through the Australian Trust for Conservation Volunteers.
Save the Bush	To encourage, facilitate and support programs and activities for the protection, management and investigation of remnant native vegetation which contribute to the maintenance of biological diversity in Australia.	The program is delivered directly by Environment Australia with assistance from the States/Territories and expert groups involved with the regional and State assessment panels for the NLP One-Stop-Shop.
River Murray Corridor of Green	To develop a vegetation corridor within a 50-kilometre strip on either side of the River Murray.	The program is delivered by Greening Australia (now nearly complete).
National Corridors of Green	To protect, enlarge and connect remaining patches of bushland and link these with new plantings.	The program is delivered by Greening Australia through community incentive contracts between State/Territory Greening Australia bodies and community consortia
Drought Landcare	To stimulate on-ground landcare activities to protect land, water and vegetation resources from the effects of drought, and to assist in preparation for post-drought recovery.	The program is delivered through the States and Territories.
Waterwatch	To promote water quality monitoring as a means of creating and enhancing an ownership ethic for broad-scale environmental management by the Australian people.	The program is delivered through the States and Territories with assistance from expert groups involved with the regional and state assessment panels for the NLP One-Stop-Shop.
Grasslands Ecology	To identify important remnant native grasslands and grassy woodlands; and to develop strategies in consultation with the States and Territories to ensure the grasslands'	The program is research focused and is administered directly by Environment Australia.

	protection.	
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Table 5 - Commonwealth funding through Environment Australia

'Rebuild the Bush' suite of Programs (Environment Australia)	1993-94 \$(m)	1994- 95\$(m)	1995-96 \$(m)	1996- 97¹\$(m)
One Billion Trees Program				
Community Grants Component	1.0	1.0	1.1	1.0
Service Component - Greening Australia	4.3	4.3	4.3	4.3
- ATCV ²	-	-	0.1	0.1
Urban Forests Component	-	-	0.2	0.3
Save the Bush Program	2.3	3.2	3.0	3.1
River Murray Corridor of Green Program	0.9	1.2	1.0	0.2
National Corridors of Green Program	-	-	0.9	1.4
Drought Landcare Program (DEST element)	-	2.7	3.6	-
Waterwatch Program	0.7	1.1	1.0	0.8
Grasslands Ecology Program	0.2	3.0	0.3	0.3
Total Environment Australia	9.4	16.5	15.5	11.5

1 estimated from Ministerial allocations.

2 Australian Trust for Conservation Volunteers.

Source: Environment Australia financial records.

2.22 Before the Department of the Environment, Sport and Territories was restructured in 1996, responsibility for administering these programs rested with the Australian Nature Conservation Agency, which was a statutory authority within the Environment, Sport and Territories portfolio.

The Natural Heritage Trust

2.23 The NHT involves \$1.25 billion in Commonwealth financial assistance over six financial years from 1996-97 to 2001-02. The NHT guidelines state that the NHT is designed:

'to encourage a more rapid and effective shift to ecological sustainability in Australia. It aims to do this by taking an integrated, long term approach to the conservation and sustainable management of Australia's land, water and biodiversity. The \$1.25 billion in Commonwealth investment will be directed largely at activities which encourage further involvement by other stakeholders and enable the barriers to sustainable land, water, biodiversity and vegetation

management to be overcome ²⁵.'

2.24 The ANAO notes that Federal Government intends to:

'pursue reforms:

- *which emphasise cooperation instead of conflict between the Commonwealth and State and Territory governments;*
- *which attack duplication and poor targeting of some government programmes and legislation;*
- *which encourage partnership between government, industry and the wider community;*
- *which refocus our efforts from processes to outcomes ...'. ²⁶*

2.25 Administrative arrangements for the operation of the NHT had not been examined at the time of the audit fieldwork. However, the community grants elements were proposed to be based on the same One-Stop-Shop process as applied to NLP elements. The program objectives and focus for the NHT are set out at Appendix 4.

1

ANAO 1995, *National Landcare Program et al: Preliminary Study*, Audit Report No.29 1994-95, AGPS, Canberra.

2

State of the Environment Advisory Council 1996, *Australia: State of the Environment 1996*, CSIRO Publishing, Victoria, Chapter 2, p. 24.

3

ibid., p. ES-17.

4

ibid., p. ES-19.

5

ibid., Chapter 2, p. 21.

6

ibid., Chapter 10, p. 17.

7

ibid., Chapter 6, pp. 5-6.

8

A 100 per cent deduction for this type of expenditure was no longer allowable after 21 August 1973 'unless the expenditure was incurred in pursuance to a contract made on or before that date ...' [(former) Section 75 of the *Income Tax Assessment Act 1936* ('the Act')]. From 1973, primary producers could claim a 10 per cent tax deduction in the year of expenditure and the nine succeeding years. A deduction became no longer allowable after 23 August 1983 'unless the expenditure was incurred in pursuance to a contract entered into on or before that date' [Section 75A of the Act]. Land conservation activities became tax deductible from 1947.

9

This mass would fill over five million Olympic swimming pools, or one swimming pool every 6.3 seconds.

10

State of the Environment Advisory Council, *op. cit.*, Chapter 6, p. 28.

11

Prime Minister's Science and Engineering Council 1995, *Sustaining the Agricultural Resource Base*, AGPS, Canberra, p. 9.

12

Land & Water Research & Development Corporation 1993, *Annual Report 1992-93*, AGPS, Canberra, p. 27.

13

ibid., p. 32.

14

State of the Environment Advisory Council, *op. cit.*, Chapter 7, p. 20.

15

ibid., Chapter 7, p. 22.

16

Murray-Darling Basin Commission 1996, *A Submission from the Murray-Darling Basin Commission to the Natural Heritage Trust of Australia Bill 1996 Inquiry held by the Senate Environment, Recreation, Communications and the Arts Legislation Committee, 9 August 1996*, MDBC, Canberra, p. 5.

17

Australian Bureau of Statistics, 1996 *Australian Agriculture and the Environment*, Catalogue No. 4606.0, AGPS, p. 2.

18

Land & Water Resources Research & Development Corporation 1995, *Annual Report 1994-95*, AGPS, Canberra, p. 61.

19

State of the Environment Advisory Council, *op. cit.*, p. ES-17.

20

Prime Minister's Science and Engineering Council, *op. cit.*, p. 2.

21

State of the Environment Advisory Council, *op. cit.*, Chapter 6, p. 37.

22

ibid., Chapter 6, p. 37.

23

Farmer's terms of trade is the average price received for Australian farm products relative to the prices paid for inputs.

24

Department of the Environment, Sport and Territories 1995, *Australia's Report for the United Nations Commission on Sustainable Development on the Implementation of Agenda 21*, AGPS, Canberra, p. 15.

25

DPIE & Environment Australia, *op. cit.*, p. 1.

26

Australia, Parliament 1997, *Investing in our Natural Heritage: The Commonwealth's Environment Expenditure 1997-98*, Statement by Senator, the Honourable Robert Hill, Minister for the Environment 13 May 1997, AGPS, Canberra, p. vi.

3. Performance Accountability

This chapter examines some of the key performance elements of Commonwealth natural resource management and environmental conservation programs; including setting objectives, the roles and responsibilities of parties to the agreements, the use of performance information, needs assessment, strategic focus on outcomes, client focus and monitoring, review and performance reporting. Overall, the audit found that administrative processes tended to be overly input-focussed, with departments not being well placed to assess outcomes due to deficiencies in the design and/or implementation of operational objectives and performance information. There were shortcomings in the needs assessment process with scope for more strategic targeting of Commonwealth investment to areas of highest need. While major improvements had been made to the client focus of programs, there was still room for improvement in both the One-Stop-Shop process and the monitoring, review and reporting aspects of programs.

Introduction

3.1 Performance accountability is about those elements of program management most relevant to ensuring the delivery of quality outcomes. As noted in a Tasmanian Government submission to the Joint Committee of Public Accounts (JCPA) inquiry on the administration of specific purpose payments (1995), ¹ *'the mere fact that resources are directed to a particular area means nothing in terms of achieving the stated aim of a particular program.'*

3.2 This report addresses each of the following considerations essential to performance accountability:

- how program objectives are designed;
- the respective roles and responsibilities of parties to the agreements;
- the appropriateness of the performance information;

- the quality of the needs assessment process;
- the strategic focus on outcomes;
- the program focus on the customer or client; and
- the adequacy of the monitoring, review and performance reporting mechanisms.

Program objectives

3.3 Better practice within the Australian Public Service indicates that objectives should be concise, realistic, outcomes-oriented statements of what the program, sub-program or other element of the program structure is intended to achieve.²

Objectives should be stated in a way which clearly communicates what is to be achieved and measured or assessed. Program objectives should be linked to government policy decisions and form the basis for performance reporting. Program objectives set by Government, can often be broad, making measurement difficult. However, program managers should ensure that these broad objectives are translated into measurable outcome statements that form the basis of performance reporting.

3.4 A clear distinction should be drawn between the intended outcomes and the strategies used to achieve them. Mapping the program logic is one way that outcomes, outputs, processes, inputs and community needs and government policies can be structured within an administrative framework. The features and objectives of program development are set out in Table 6 below.

3.5 The audit found that across all programs examined in DPIE and Environment Australia, program objectives are broad and difficult to measure. The NLP Partnership Agreements attempted, in some cases, to develop operational objectives linked to performance indicators, targets and milestones - with variable quality and consistency. Although Environment Australia has not developed operational objectives for the programs it administers, it has recognised the problem and has instituted training for its staff and non-government service delivery agencies. Program objectives in both DPIE and Environment Australia were generally broad, output or process oriented (for example, '*increase community awareness*', '*assist community groups implementing projects*', '*encourage a whole landscape approach*'). There were few cases found where objectives were concise, realistic and measurable outcomes-oriented statements of what the program aimed to achieve. In respect to the OBT Service Delivery component, it is not clear how the four thematic components specified in the Annual Program (see Table 5) are linked to the overarching OBT program objective.

Table 6 - An illustration of mapping program logic

Outcomes	Higher level of economic, social and environmental well-being (for example, the efficient, sustainable and equitable management and development of Australia's natural resources)
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Outputs	Specific services and products designed to achieve the overarching outcomes (for example, the level of awareness and understanding of land degradation problems and sustainable management practices, number of primary producers implementing sustainable land-use practices, amount of revegetation achieved, reductions in salinity, soil loss etc)
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Processes	Identifying needs and key participants (for example, extent of land degradation problem in different catchments, number of landcare groups, number of catchment management committees)
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Inputs	Commonwealth staff and resources allocated (for example, NLLP funding and research)
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Community needs and government policy	Community needs are appropriate for government action (for example, public benefits outweigh private benefits, proposed actions are consistent with Commonwealth and State/Territory natural resource management policies)
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Source: Adaptation from ANAO & Department of Finance 1996, *Performance Information Principles: Better Practice Guide*, Canberra.

3.6 The ANAO recognises that developing quality objectives is a challenge for program managers. For example:

- if objectives are too broad, any activity could contribute to them;
- if objectives are too narrow, they may favour one client group over another;
- there may be trade-offs between objectives (for example, efficiency versus equity); and
- the relative emphasis and interpretation of the different objectives may vary over time with changes in ministerial priority, government policy or client needs.

3.7 However, clear objectives are essential. In particular, where program objectives are broad, it is not possible to determine if the performance indicators are measuring the key aspects of performance, nor is it possible to make an accurate assessment of the extent to which the objectives are being achieved. Where broad goals are set by Ministers, operational objectives that are concise, realistic and measurable need to be

developed by program managers.

3.8 This is particularly important for the NHT which also has the very broad goal 'to stimulate activities in the national interest to achieve an integrated approach to the conservation, sustainable use and repair of Australia's natural environment ³¹'.

Conclusion

3.9 Program objectives for the landcare programs examined tend to be broad, difficult to measure and are often output or process-oriented. DPIE has attempted to develop operational objectives for the NLP that are linked to performance indicators, targets and milestones - with variable results as far as quality and consistency are concerned. Although Environment Australia has not developed operational objectives for the programs it administers, it has recognised the problem and is taking steps to improve objectives under the NHT. The lack of operational objectives makes it very difficult to determine the extent to which programs are achieving their intended outcomes. Operational objectives are needed for the NHT that are concise, realistic and measurable outcome-orientated statements of what the programs aim to achieve.

Recommendation No.1

3.10 The ANAO *recommends* that DPIE and Environment Australia, in consultation with States, Territories and other service delivery agencies, develop operational objectives for programs under the Natural Heritage Trust that are concise, realistic and measurable outcomes-oriented statements of what the program aims to achieve.

Responses:

3.11 DPIE and Environment Australia agree with this recommendation. DPIE considers that the ANAO focuses on the objectives contained within the NLP Partnership Agreements and the *Natural Resources Management (Financial Assistance) Act 1992* and overlooks the objectives contained within the National Strategy for Ecologically Sustainable Development and the Decade of Landcare Plans. However, while the ANAO acknowledges these strategies/plans, the audit was focussed on the National Landcare Program and the objective specified within the associated Partnership Agreements and not the Decade of Landcare Plans or the National Strategy for Ecologically Sustainable Development

3.12 Environment Australia notes that for many of its program areas within Environment Australia, there is a significant problem in quantifying program outcomes against long-term benefits for biodiversity conservation. In most cases the data are insufficient and the time frames prohibitive. However work is being undertaken jointly with DPIE to ensure a consistent approach to addressing this recommendation.

Roles and responsibilities

3.13 Clearly defined roles for all stakeholders are essential if program objectives and

accountability standards are to be met. The JCPA recognised this and outlined three principles to minimise any duplication or gaps in responsibility:

- the roles and responsibilities of each party to the agreement should be clear;
- consultation arrangements for any shared roles and responsibilities should be established and should be simple; and
- the Commonwealth should focus on strategic planning and performance assessment and should shift its focus from service delivery planning, conditional on the adoption of appropriate performance agreements and arrangements. ⁴

State/Territory service delivery agencies

3.14 Under the NLP Partnership Agreements, the roles and responsibilities of the States/Territories are well-defined. However, the role of DPIE is not so clearly defined. ⁵ This has increased the scope for DPIE to duplicate, rather than complement, the roles of the States and Territories (for example, in relation to project selection).

3.15 In relation to programs administered by Environment Australia, the OBT and STB Community Grants programs clearly define the roles and responsibilities of the Commonwealth, States and Territories and grant recipients. However, the ANAO found that the contracts between Environment Australia and the States/Territories for the delivery of the Waterwatch program were not clear as to which party was responsible for project outputs and outcomes. The ANAO considers that future agreements should clearly state the respective roles and responsibilities of all parties.

3.16 Although the Partnership Agreements for the NHT are yet to be finalised, ANAO concerns arising from the current agreements, (that is, in relation to defining the roles and responsibilities for all parties) have been substantially addressed in the new draft Partnership Agreements.

3.17 The ANAO notes that the draft NHT Partnership Agreements provide for the primary role of the Commonwealth to encompass strategic planning and NHT performance assessment (see Table 7).

Table 7 - Commonwealth and State/Territory responsibilities under the NHT

Commonwealth responsibilities	States and Territory responsibilities
the national interest	setting more specific program objectives, priorities and outcomes
setting broad goals, objectives, priorities and outcomes	reviewing State/Territory legislation, policies and programs
integration of Commonwealth natural resource management and environment programs	management of State/Territory land and water
reviewing Commonwealth legislation	consultation and collaboration with other parties (for example, local government and other States/Territories)
management of Commonwealth lands	

monitoring, evaluation and reporting on the performance of the NHT	monitoring, evaluation and reporting on the performance of NHT funded projects
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3.18 Consultation for areas of shared responsibility (for example, cost sharing) will be determined on a program by program basis in line with agreed principles relating to transparency, fairness, equity and consistency.

3.19 The ANAO considers that the draft NHT Partnership Agreements are broadly consistent with the good practice principles outlined in the introduction to this section. However, the ANAO understands that it may be some time before the Partnership Agreements, including the more detailed attachments, are completed.

Non-government service delivery agencies

3.20 Greening Australia is the primary service delivery agency for the OBT service delivery program and the RMCOG and NCOG programs. Environment Australia considers that Greening Australia has an important role to present Environment Australia programs to a wide cross-section of the community.

3.21 The ANAO recognises that the Government may seek policy advice from a range of government and non-government sources. However, as noted in a 1995 strategic review of the OBT program, the policy development involvement of Greening Australia has the potential to confuse the contractual relationship and weaken Environment Australia's direction of the program.⁶ In any event, the ANAO considers that the use of program funds to influence government policy in favour of a particular interest group is clearly inappropriate. The ANAO has observed that some OBT Service Delivery projects funded by the Commonwealth could be interpreted as having a focus on influencing government decision-making in favour of Greening Australia's interests as well as to the benefit of the program. For example, Greening Australia's 1996-97 OBT list of projects approved by Environment Australia includes:

- \$89 594 for a project where one of its six stated aims is '*to achieve a government policy environment which facilitates the OBT and GA's work*';
- \$50 531 for a project to, among other things, '*analyse existing and potential programs, government policies and general trends and assess opportunities for increased resources for GA's work*';
- \$92 777 for a project to, among other things, lobby for the extension of the OBT and promote its achievements and potential, especially within government; and
- \$4234 to '*... enhance ... GA's prospects of obtaining new contracts*'.

3.22 Environment Australia advised that this issue was the result of a drafting

oversight and has raised the matter with Greening Australia. Environment Australia further indicated that Greening Australia had agreed to vary the contract to delete any reference to the use of OBT funds to lobby for the enhancements of OBT funding, or to enhance Greening Australia's position or ability to attract new contracts. However, an ANAO examination of the relevant revised OBT Service Delivery projects shows no material change. Greening Australia advised that the ANAO's comments would be reflected in any future agreements with Environment Australia. The ANAO suggests it would be in the interests of all parties for Greening Australia to have clearly specified performance requirements which should be regularly reviewed by Environment Australia.

Conclusion

3.23 Under current contracts/agreements for the delivery of Commonwealth landcare programs, the distinction between the roles and responsibilities of the various parties has tended to lack clarity - particularly in terms of the roles and responsibilities of the Commonwealth. This has increased the scope for DPIE to overlap, rather than complement, the roles of the States and Territories.

3.24 The ANAO has also observed that some OBT Service Delivery projects funded by Environment Australia in the past could be interpreted as having a focus on influencing government decision-making in favour of the service delivery agency as well as for the benefit of the OBT program.

3.25 While the draft Partnership Agreements for the NHT contain considerable improvements in terms of clarifying responsibilities, the challenge facing Commonwealth departments will be to maintain a focus on strategic planning and performance assessment within a systematic risk management framework throughout the implementation process for the NHT. DPIE and Environment Australia will need to ensure that the proposed improvements are incorporated into the final Partnership Agreements.

Recommendation No.2

3.26 The ANAO *recommends* that DPIE and Environment Australia seek to ensure that the final Natural Heritage Trust Partnership Agreements:

- (a) explicitly state the respective roles and responsibilities of all parties to the agreement;
- (b) define consultation arrangements for any shared roles and responsibilities; and
- (c) focus the primary role of the Commonwealth on strategic planning and performance assessment commensurate with appropriate risk assessment.

Responses:

3.27 DPIE and Environment Australia agree with this recommendation. Both agencies note that the draft NHT Partnership Agreements delineate the respective responsibilities of the parties to the agreement and also outline responsibilities of

local government and the community. DPIE also indicated that it is progressively devolving administrative and day-to-day responsibility to the States and Territories.

Performance information

3.28 Performance information includes the quantitative and qualitative data gathered to measure how successful a program has been in achieving its objectives.⁷ Different types of performance information are needed depending on which aspect of performance is being measured (for example, efficiency, effectiveness or service quality). Without adequate performance information, particularly in relation to program effectiveness, managers cannot make informed decisions about the allocation, priority and use of program resources or provide sound advice on the appropriateness, success, shortcomings (if any) and future directions of programs. Important information relating to the cost effectiveness of administrative approaches, the relevance of program objectives and priorities and the appropriate quality of service to clients cannot be determined without well developed performance information (including performance indicators, targets and milestones that measure inputs, processes, outputs and outcomes).

Department of Primary Industries and Energy

3.29 The Standing Committee on Agriculture and Resource Management (SCARM) established under the Agricultural and Resource Management Council of Australia and New Zealand (ARMCANZ) noted the absence of clearly defined outcomes and performance indicators in its evaluation report on the Decade of Landcare Plan.⁸ The establishment of credible performance indicators and milestones for the remainder of the Decade of Landcare was seen as a high priority in the report. Consequently, although there may have been some progress against each of the program objectives, the ANAO was unable to determine on a national basis, how the NLP has progressed in terms of achieving its overall objectives.

3.30 The ANAO notes that performance indicators were originally developed for each State and Territory under the NLP Partnership Agreements and linked to the Decade of Landcare plans. In some cases, performance indicators were linked to NLP milestones and targets. However, in many cases they were not. In any event the ANAO found that the performance of the States/Territories has not been assessed against the original performance indicators and milestones and targets (where available).

3.31 Although some general performance information was available,⁹ more specific information directly relevant to the achievement of program objectives is unavailable. Even simple input-related performance information such as the number of project applications per annum (which is an indicator of aggregate demand) and the number of ineligible applications (which is an indicator of the clarity of the guidelines and pre-application information) are not currently available to DPIE because applications are 'filtered' by the States/Territories and their assessment committees. Some States and Territories have consistently maintained and monitored this data while others have not. Although this filtering is consistent with State/Territory responsibilities (to reduce workloads and increase efficiency of the

approval process), it has had the effect of reducing available client data for the Commonwealth which could be used, for example, to improve program design. The ANAO considers that relevant information on demand patterns for the NHT programs should be maintained. If collected at the State/Territory level as part of their normal operations and passed to DPIE at the end of the funding period, the information could be considered as part of an annual review of the program without any reduction in efficiency.

Environment Australia

3.32 Performance information for Environment Australia programs is neither comprehensive or consistent. Performance indicators are not usually linked to each program objective (for example, the OBT and STB Community Grants and Waterwatch programs). Further, the indicators which do exist (for example, in relation to the OBT Service Delivery component) are not linked to milestones and are not used in the reporting phase. For example, one project had the stated aim of *'establishing an estimated 5 million trees and shrubs by local groups.'* However, the reporting indicators for this project were the number of groups supported and projects assisted and the number of labour market program participants trained through Greening Australia assisted projects.

3.33 The ANAO notes that information on demand patterns for the Environment Australia programs processed through the One-Stop-Shop are unavailable, as was the case with the NLP administered by DPIE.

3.34 Table 8 illustrates that quantitative performance information available for Commonwealth vegetation programs is limited to process measures (hectares involved) and input measures (number of people).

3.35 Greening Australia considers that in 1996-97 it is recording a range of measurable outcomes for the OBT Service Delivery program. In the ANAO's view, project performance indicators contained in the OBT Annual Program for 1996-97 produced by Greening Australia are not of substantially better quality than those of previous years. Greening Australia notes that for 1997-98, it has a *'considerably more professional and objective monitoring and evaluation system which will relate project outputs to program objectives'*.

Table 8 - Quantitative performance information available for Commonwealth vegetation programs from 1989-90 to 1995-96

Program	Year Program began	Hectares involved	People involved
Drought Landcare Program	1994-95	181 099	unavail.
One Billion Trees Program - service delivery	1989-90	336 000	unavail.
One Billion Trees Program - community grants	1989-90	15 595	65 374
National Corridors of Green Program	1995-96	unavail.	unavail.

River Murray Corridors of Green	1992-93	2 880	unavail.
Save the Bush Program	1989-90	18 307	85 420

Source: Forestry Technical Services (Fortech) 1996, *Review of Commonwealth Government Vegetation Initiatives 1989-1995*, Annex 1, unpublished

Development of appropriate performance indicators

3.36 The ANAO's findings for both DPIE and Environment Australia are consistent with the JCPA's 1995 assessment of performance information on specific purpose payments across the Commonwealth. The report noted that data collection is often inadequate to monitor performance or undertake strategic planning. Commonwealth agencies tended to measure inputs, processes and outputs that give an indication of the level of activity being undertaken by other parties to an agreement, but not an indication of outcomes.¹⁰ The ANAO recognises that the development of outcomes indicators may not be quick or easy. Workload and efficiency indicators are relatively simple to define and generally easy to collect; but effectiveness indicators that are designed to measure outcomes are not necessarily easy to define (and key information is not always available particularly when there are long lead times involved in arresting and reversing many forms of resource degradation).

3.37 In their advice to Ministers, DPIE and Environment Australia have acknowledged the difficulties in establishing performance indicators for environment and natural resource management programs. Key performance information being developed for the NHT includes the development of economic, physical and biological indicators for strategies, plans and projects. The ANAO supports this approach by DPIE and Environment Australia provided the data requirements are cost-effective to collect and can readily measure progress towards achieving program objectives.

Conclusion

3.38 The ANAO found that although performance indicators, and to a lesser extent, performance targets and milestones, for each State/Territory had originally been developed for the NLP administered by DPIE, these have not been applied effectively by all parties to the Partnership Agreements. As well, meaningful outcome-focussed performance indicators have not been developed for programs administered by Environment Australia. Program performance information in DPIE and Environment Australia is generally limited to input, process or output measures (such as the number of landcare groups funded through the program, number of people and the number of hectares of land involved).

3.39 The ANAO supports the development of an appropriate set of performance indicators, targets and milestones as a high priority for the NHT. Information on demand patterns for the NHT should also be collected as part of this process. This is important to give an indication of total demand for the program and ensure the clarity of NHT guidelines and pre-application information made available to applicants. Performance information should be reliable, cost effective to collect and should be refined in the light of experience and/or as a result of evaluations. The

ANAO and Department of Finance *Performance Information Principles Better Practice Guide* (1996) provides a sound basis for DPIE and Environment Australia to improve performance in this regard.

Recommendation No.3

3.40 The ANAO *recommends* that DPIE and Environment Australia:

(a) develop more appropriate performance indicators, targets and milestones to assist in measuring the performance of Natural Heritage Trust programs consistent with the ANAO and Department of Finance *Performance Information Principles Better Practice Guide* (1996); and

(b) seek from State/Territory and other service delivery agencies, consistent and relevant information on demand patterns for the Natural Heritage Trust programs.

Responses:

3.41 DPIE and Environment Australia agree with this recommendation. An implementation group of officials has been convened to address NHT monitoring and evaluation issues.

Needs assessment

3.42 A key factor in value-for-money program delivery is that there is a rigorous needs assessment process to ensure that those projects which maximise the likelihood of achieving program objectives receive funding. The Department of Finance describes community needs assessment as the primary input in determining program priorities and in shaping both objectives and outcomes. ¹¹ Central questions in understanding 'needs' within an environmental program context might include:

- the scale and nature of the problem to be addressed and Commonwealth and State/Territory priorities;
- the time frame required to address the problems;
- historical patterns and precedents relating to natural resource use and conservation;
- the environmental effects of other Commonwealth, State/Territory and local government policies, programs and practices;
- the effect of economic activity and land use in rural Australia; and
- the public versus private benefit from financial assistance.

3.43 The ANAO notes that a comprehensive assessment of needs was not undertaken as part of the design of the NLP and the NHT. The ANAO understands that this will be one of the key outputs from the National Land and Water Audit which will be developed as part of the NHT. However, current progress suggests that this project will not be complete until a substantial amount of the existing NHT funds have

already been spent (that is, mid-1999). In the absence of this data, the true extent and nature of land degradation priorities cannot be measured in any comprehensive way. Local knowledge is often the basis of project applications and the regional assessment process. There is some evidence to indicate that the skills and experience of rural communities to understand complex environmental degradation problems varies.

3.44 A 1993 survey published by the Australian Bureau of Statistics found that primary producers have a relatively high level of awareness of land degradation and concern for the environment. However, other research has found that primary producers specific knowledge of land degradation processes was poor and there was not widespread adoption of desirable land management practices. [12](#), [13](#)

3.45 DPIE research has also noted formidable barriers to determining needs for the NLP at the local level. Findings included:

- a lack of adequate catchment level priority setting for Commonwealth investment in national interest projects;
- confusion between disaster management programs (for example, flood mitigation works) and natural resource management programs (flood mitigation works are no longer a NLP priority);
- a trend in many catchments to focus on symptoms rather than causes (for example, saline soaks rather than recharge areas; revegetation of scald areas rather than management of remnant vegetation; and use of contour banks and drainage lines rather than modified tillage practices and cropping regimes);
- a reluctance on the part of State/Territory and local government agencies to use existing legislation and planning regulations to complement investment in catchment management actions;
- a negative attitude in many catchment communities - sceptical of government, unsure of landcare and similar programs, with an aging population with limited time and energy for innovation and inadequate financial resources for change; and
- the lack of integration of catchment management with local and regional planning and administrative structures. [14](#)

3.46 However, despite these obstacles, the ANAO did find an example of the application of good quality needs assessment. This is illustrated below in Case Study 1.

Case Study 1: Murray-Darling 'hotspots'

As a result of the blue-green algal bloom in the Darling River in 1991, the then Prime Minister's 1992 Statement on the Environment identified ten key towns and cities responsible for 90 per cent of the sewage phosphate entering the Darling River. The Commonwealth offered NSW and Queensland a combined total of \$12.8 million to bring forward a program of works aimed at reducing phosphorous in town effluent. The final

cost of all works is expected to be in the order of \$95 million, with State governments, local authorities and local communities contributing the majority of funds. A comprehensive community consultation and needs assessment process ensured that important requirements beyond that of phosphorous removal were incorporated into the resulting systems.

The first completed plant was commissioned in March 1997 at Dalby in Queensland. The plant uses a Cyclic Activated Sludge System which has been developed with substantial Australian research and innovation, and is marketed by a Perth-based company. Seven of the ten plants are scheduled for completion in 1997-98, with the last two plants complete by 1999-2000.

The photograph to the right illustrates one sewage treatment plant under construction. At the time of the algal bloom, the average phosphorous discharge from most identified towns was around eight parts per million. All the proposed schemes are expected to meet the NSW Environment Protection Authority requirement of one part per million, which is an average 87 per cent reduction of phosphorous entering the river from these sources.

ANAO comment

This case study demonstrates that quality needs assessment developed in consultation with local communities can substantially assist in better targeting resources to address identified problems. The ANAO understands that while not all the local communities involved are happy with the increased local charges to cover the costs of effluent treatment, at least governments can quantify to some extent the benefits in terms of reduced risks from toxic algal bloom. The project also highlights the long lead times required in addressing complex environmental problems, with a lapsed time of about eight years from the start to the scheduled completion of this project. The project also had an unforeseen benefit in that it provided an opportunity for piloting innovative Australian waste water treatment technology.

3.47 However, the ANAO found that there was often an absence of quality research and analysis in the determination of program needs and priorities. In particular, a recent LWWDC report found that *'environmental aspects such as habitat diversity and water quality had been seriously under-emphasised in decisions on development proposals and regional planning generally'*.¹⁵ There is evidence that, in relation to dryland salinity, the problem is getting worse not better. Although there are several control techniques being applied across Australia, State/Territory agencies generally had little confidence that these strategies would reduce salinity. The lack of progress was traced back to poor Commonwealth and State/Territory targeting and coordination of expenditure on salinity programs.¹⁶ Further details of this case are outlined in Case Study 12 at Appendix 5.

3.48 A report to Environment Australia on national grasslands conservation also noted that:

'weak linkages between programs and poor communication between agencies results in inefficient program investment and sometimes conflicting activities being supported by different agencies. For example, many dryland salinity management activities within the Murray Darling Basin promote the use of exotic perennial grasses to manage recharge areas.'

Only recently has the [Murray-Darling Basin] Commission and the NLP supported research and use of native grasses for the same purpose.' ¹⁷

3.49 The ANAO notes that it was only in 1996-97 that Greening Australia was required to comply with a species policy (which explicitly addressed the use of native species and protection of native grasslands) as part of the contract with Environment Australia.

3.50 In both DPIE and Environment Australia, funding is allocated to the States and Territories on a basis generally unrelated to the environmental problems the programs are trying to address (although DPIE indicated that the allocation of NLP funds are based on project merit). In relation to the OBT Service Delivery component, funding allocations have been made to projects on the basis of projects that reflect Greening Australia's identified priorities. However, the absence of hard data on environmental needs and priorities makes the task of deciding on priorities that much more difficult. Environment Australia has indicated that it is acutely aware of the need for research programs to guide the priority setting process for the NHT.

State/Territory and regional assessments

3.51 The use of regional (RAPs) and state assessment panels (SAPs) is consistent with the Commonwealth's role of setting strategic directions but it does mean that the Commonwealth is reliant on RAPs and SAPs to make judgments on the quality of project applications. The ANAO found that some regions, with the assistance of State/Territory and local governments, have developed substantial research and administrative capacity to establish needs and set priorities (especially those within the Murray-Darling Basin and in Western Australia). ¹⁸ However, most have not. (Case Study 2 illustrates recent research by the Environmental Studies Unit of Charles Sturt University that highlights the important contribution that strategic research can play in the protection of remnant vegetation.)

3.52 Recommendations on priorities (within the parameters of program guidelines) are often based more on intuitive judgments rather than any robust needs assessments. In some cases, project recommendations are often 'negotiated outcomes'. For example, the ANAO found that in one State, between 76-150 regional project priorities (representing about 10 per cent of all applications) over the past four years were not supported by the SAP. In one region visited by the audit team, the top three projects recommended by the RAP were not regarded as being eligible for funding by the SAP while the projects ranked 48, 91, 94 and 124 were all ranked first, second or third in their category for the State.

3.53 The ANAO recognises that in many cases the SAPs may quite legitimately be overlaying State/Territory priorities over regional priorities. However, it does raise questions as to either the quality and clarity of the guidelines provided by the Commonwealth to RAPs, the relevance of the priorities for different regions, or the capacity of RAPs to apply national guidelines to local circumstances. ANAO consultations with State/Territory officials indicated that all three factors were relevant to some extent in different States/Territories. Although not applicable to all States/Territories, the key issues were:

- Commonwealth priorities and guidelines are regarded as too changeable. (DPIE indicated that over the four years of the NLP, there has been only one instance where the priorities of the Minister for Primary Industries and Energy were late in being advised to the States/Territories);
- NLP priorities were sometimes at odds with perceived local needs;

Case Study 2: Mapping remnant woodland and forest in the Central Western region of NSW

In a program to map the quality and sustainability of remnant woodland and forest in the Central Western region of NSW, the Environmental Studies Unit of Charles Sturt University carried out an assessment of individual remnant patches using a checklist approach which included habitat features that could be observed easily in the field. All assessments of bushland patches were carried out on the ground. Approximately 600 sites were visited in the Molong district, 350 in the Bathurst district and 300 in the Bogan Gate district. A significant number of sampling positions on the ground were determined with great accuracy using the satellite-dependant Global Positioning System. The method allows a rapid assessment of each site to be carried out, with consistent and statistically valid outcomes being achieved in the determination of woodland sustainability and quality. The study calculated that 77 500 hectares of remnant woodland within an area of 7340 square kilometres is at risk of disappearing from the landscape because of inappropriate land management practices. The number of trees at risk was estimated to be between 39-77 million. The study also suggested that if the 'picture' is representative of the situation throughout the central west region, then the number of trees at risk within this 65 000 square kilometres area is conservatively estimated to be up to 0.6 billion; which is over half the number of trees proposed to be planted in the One Billion Trees Program. The study also indicates that Box Woodlands (ie. *Eucalyptus melliodora*, *Eucalyptus blakeyi* and *Eucalyptus albens*) are the major vegetation group at risk. These are the woodlands which dominate the valley floors and/or lower slopes and which are poorly represented within the present system of reserves and national parks.

ANAO comment

This case study highlights how programs designed to protect remnant vegetation can benefit from strategic research. The ANAO considers that such research has particular relevance for the targeting of Commonwealth investment under the NHT.

Source: Ecology at the Cutting Edge: Information Technologies for Managing Biodiversity and Ecological Processes. David Goldney, Brian Stone and Marcus Croft, Environmental Studies Unit, Charles Sturt University. Proceedings of a conference organised by the Nature Council of NSW, November 1995

- information and analysis on biodiversity and environmental conservation is rarely available to enable robust needs assessment for these types of project applications. (The ANAO notes that both the Australian Conservation Foundation and the World Wildlife Fund for Nature support this view and are also concerned about the potential for systematic bias against biodiversity-oriented projects at the RAP and SAP levels because the information and expertise on the panels is skewed in favour of agricultural interests. DPIE indicated that assessment panel membership is to be expanded under the NHT to reflect its broader issues and objectives);
- seasonal/climatic factors complicated needs assessments processes as they tended to focus attention on urgent, irreversible events (such as erosion from wind and water) rather than more gradual, but equally important processes such as soil salinity and acidity. The ANAO considers that the national component of the NLP and bodies such as the LWRRDC may be able to further assist through a strategic research program. (Environment Australia indicated that it works in partnership with LWRRDC on a number of research themes);
- where tree clearing was occurring on marginal, leasehold land, some State/Territory governments did have the capacity to better link NLP funding to State/Territory clearing policy (that is, cross-compliance) as these States/Territories retained a legal property right over trees and could regulate clearance;
- State/Territory governments had difficulty in managing the expectations raised by the Commonwealth program as eligible applications vastly outweighed the availability of funds (For example, in NSW alone in 1995-96 there was \$24.2 million in eligible but unsuccessful applications under the NLP, in addition to the \$28.6 million in funds allocated). The increased funding under the NHT may assist in this regard; and
- many catchments outside of the Murray-Darling Basin have only recently established Catchment Management Committees and many are still 'finding their feet'. Some regions have sound planning processes but most do not.

Public versus private benefit

3.54 A further issue of relevance to the needs assessment process of the NHT is the distinction between public and private benefit from government assistance. Most environmental and natural resource management projects on private or leasehold land - especially those involving on-ground works - provide some form of private benefit to primary producers and landholders and public benefit to the broader community (see Table 9).

3.55 DPIE indicated that it has endeavoured to fund NLP projects only to the extent of the public benefits. However, the distinction between private and public benefits will become even more important because the draft NHT Partnership Agreements state that the Commonwealth and the States/Territories will fund activity on private land to the extent that this provides a public benefit and landholders and lessees will be expected to make contributions to the extent of the private benefits. The difficulty then becomes one of determining the levels of private and public benefits. Many

factors impinge on the division of public and private benefits on any given project. The MDBC identified the following factors:

- (a) different sets of economic, environmental and social costs and benefits;
- (b) the values placed on (a) above;
- (c) the principle to be used in cost-sharing, usually beneficiary pays;
- (d) property rights (who is legally responsible for works, if anyone);
- (e) community service obligations (who has carried out similar works in the past, or who has moral responsibility for contributing to the works);
- (f) whether the person on whose land the works are sited will obtain the full benefit from the works, or whether market failure occurs (ie. the person who owns the land obtains only a portion of the benefit arising from the works); and
- (g) possible distorting effects of cost-sharing (if government contributed to works on private land up to the level of public benefit, would this have an unintentional and significant effect on land values). ¹⁹

Table 9 - Examples of private and public benefits

Private Benefits	Public Benefits
increased production	local government savings on urban water treatment
reduced costs and production losses	local government savings on maintaining recreational facilities
increased land value	increased value of shire real estate
decreased costs of using household water in urban areas	increased regional economic activity covering several shires
	State government savings on maintaining roads and electricity, telephone and water supply infrastructure
	benefits to the Commonwealth government such as maintain options for future generations
	increased aesthetic and existence values ¹
	conservation of bio-diversity

Source: Murray-Darling Basin Commission 1996, *Cost-Sharing for On-ground Works*, MDBC, Canberra, p. 6.

¹ Existence Values: the values that people in all areas, including cities, place on knowing there is a natural bushland or wilderness in the countryside.

3.56 The draft NHT Partnership Agreements provide no advice on how to determine the level of public and private benefits. DPIE consider that the public/private benefits issue has been dealt with in the NHT Community Group Application guidelines. The ANAO found that, although the guidelines specify that 'activities

which principally provide significant private benefit would have a low [funding] priority', ²⁰ they provide no guidance to applicants as to how to determine the level of public and private benefits of proposed projects. The MDBC, however, has developed and published cost-sharing principles and a cost-sharing framework that allows for identifying and quantifying levels of public and private benefits derived from on-ground works. ²¹

3.57 The ANAO considers that DPIE and Environment Australia should ensure the States/Territories apply an objective methodology (to the greatest extent possible) when determining the distinction between public and private benefits of NHT project proposals. The MDBC report may be able to assist in this regard when projects involving on-ground works are being considered.

Compatibility of State/Territory and local government programs, policies and practices

3.58 State/Territory and local government natural resource management and environment programs, policies and practices have a large bearing on the ability of the NHT to achieve its ultimate objective (as reported in the draft NHT Partnership Agreements) of '*an integrated approach to the conservation, sustainable use and repair of Australia's natural environment*'.

3.59 The divergence of some State/Territory natural resource management policies and practice to Commonwealth programs and policies is illustrated in Queensland, where permits to clear 684 967 hectares of virgin bush were granted in 1994, ²² allowing landholders to clear this amount of land within the succeeding five years. ²³ The total amount of land involved in the STB community grants program throughout Australia for the seven years from 1989-90 to 1995-96 is 18 307 hectares ²⁴ - less than three per cent of what the State allows landholders to clear in Queensland. The Queensland Department of Natural Resources notes that in 1996, permits to clear virgin bush had fallen to 199 632 hectares. Land clearance monitoring in Queensland reveals that actual tree clearance (including regrowth) between 1991 and 1995 was 308 000 hectares per year.

3.60 However, the combined area of involvement by both the OBT and STB programs represents only eleven per cent of the bushland which has been estimated to have been cleared in Australia between 1989-90 and 1995-96.

3.61 The ANAO considers that the compatibility of State/Territory and local government natural resource management and environment programs, policies and practices should be an integral part of any needs assessment process under the NHT. As noted in the ANAO Better Practice Guide for the Administration of Grants, a grants scheme is rarely the only way to achieve the desired aims. Environment Australia has indicated that local government is a major stakeholder in the NHT and has been consulted throughout the program's development.

Reporting sufficient information to determine value-for-money

3.62 As discussed in Case Study 3, the multi-layered assessment of project

applications under the One-Stop-Shop provides some assurance to the Commonwealth that it is receiving value-for-money. This assessment by the RAPs and SAPs is made possible by the financial disclosures grant applicants are required to make for each project. For example, each NLP Commonwealth-State and Community project application must:

- allocate estimated project expenditure to categories - employment costs (salaries, contractors), operating costs (travel, equipment hire) and capital costs;
- explain how the grant recipient arrived at figures for estimated project expenditure (for example, salaries - hours x rate, Travel - no. of trips x number of kilometres x cost per kilometre); and
- indicate which source(s) of funding (that is, community groups, State/Territory and other government contributions or NHT funding) would be used to pay for each project expenditure category.

3.63 This proposed expenditure allocation allows RAPs, SAPs and, to a lesser extent, DPIE to compare similar projects within and across regions and States/Territories and thus determine, to some extent, whether the Commonwealth is obtaining value for money for its outlays.

3.64 Under the OBT and STB Community Grants and the Waterwatch programs, Environment Australia has a clear idea of the number of hours to be worked and the hourly salary rate for each State Facilitator or Coordinator employed by the States/Territories and funded (partially or fully) by the Commonwealth. However, the same cannot be said for the Environment Australia programs delivered by Greening Australia (that is, the OBT Service Delivery program and RMCOC and NCOG programs). These programs are assessed in a comparative less transparent manner than those assessed through the One-Stop-Shop process. The OBT Service Delivery contract does not require Greening Australia to breakdown proposed expenditure for each project in any way. Similarly, the RMCOC program Phase IV contract with Greening Australia does not provide a breakdown of salaries for the three State Facilitators and eight Regional Coordinators funded by the Commonwealth. The contracts indicate the total salaries per State but do not spell out the number of hours to be worked and the hourly salary rate for each State Facilitator and Regional Coordinator. In addition, proposed expenditure allocations for regional facilitation projects or Community incentive contracts under the RMCOC program are not available to Environment Australia.

3.65 As a result, Environment Australia is not in a position to compare expenditure items between similar OBT and RMCOC/NCOG projects or projects of programs delivered by States/Territories and thus cannot determine whether the Commonwealth is receiving value-for-money. The ANAO considers that Greening Australia should be required to include a breakdown of its project expenditure similar to that required for the NLP Commonwealth-State and Community and Waterwatch programs. As Greening Australia currently discloses a total expenditure budget for each OBT Service Delivery project, the ANAO considers that it should not

be difficult for Greening Australia to include a breakdown of each project expenditure budget and indicate how Greening Australia arrived at the figures. Environment Australia has indicated that it has been negotiating with Greening Australia to improve their reporting on outcomes and activities funded through the OBT Service Delivery program.

Conclusion

3.66 A comprehensive assessment of needs has not been undertaken for programs under the National Landcare umbrella. The National Land and Water Audit, which is proceeding as part of the NHT, could make a substantial contribution. However, current progress suggests that the Audit's results will not be complete until a substantial proportion of the existing NHT funds has already been spent (that is, by mid-1999). While recognising the inclusive nature of the 'bottom-up' submission based approach, the ANAO considers that, in the absence of a rigorous, national needs assessment process, the various programs cannot consistently target Commonwealth investment to highest priority needs, including the identification of the regions to be covered.

3.67 The ANAO observed that substantial changes in project priorities can occur throughout the various level of the One-Stop-Shop project selection process. This raises questions as to the quality and clarity of the guidelines provided by the Commonwealth to the regional assessment panels (RAPs), the relevance of the priorities for different regions or the capacity of RAPs to apply national guidelines to local circumstances. The compatibility of State/Territory and local government programs, policies and practices with Commonwealth objectives and programs is an important issue that requires specific consideration in any needs assessment process (for example, the total land area involved in the Save the Bush (STB) and OBT programs nation-wide over the seven years from 1989-90 represents only eleven per cent of the bushland which has been estimated to have been cleared Australia-wide over the same period).

3.68 The balance between public and private benefit and who should pay is another issue that requires greater attention. This is because the Commonwealth intends to only fund projects to the extent of any public benefit. However the classification of benefits into public and private is not straightforward. The ANAO considers that the needs assessment process should be enhanced overall if the NHT is to be well-targeted and achieve value-for-money outcomes.

3.69 The ANAO found that the One-Stop-Shop project assessment process (through regional and State assessment panels) and the disclosure of estimated project expenditure on project applications provide the Commonwealth with a basis for determining if it is receiving value-for-money. However, the programs delivered by Greening Australia are assessed in a comparatively less transparent manner than those assessed through the One-Stop-Shop process. In addition, the limited budgeted project expenditure reporting by Greening Australia does not allow Environment Australia to determine whether it is receiving value-for-money from these programs. Environment Australia has indicated that this issue is continuing to be addressed

through the NHT.

Recommendation No.4

3.70 The ANAO *recommends* that DPIE and Environment Australia:

- (a) in conjunction with the States, Territories and other parties to the agreements, determine cost effective options to strengthen the quality and consistency of the needs assessment process for assistance under the Natural Heritage Trust (for example, through accelerating efforts to complete the National Land and Water Audit, benchmarking techniques and facilitating better practice in regional assessment);
- (b) review Commonwealth guidelines and policies relating to the representational balance and resourcing requirements for assessment panels;
- (c) explore options for further involving local government bodies in the administration and delivery of Natural Heritage Trust programs to maximise the compatibility and the efficient integration of public sector investment;
- (d) consider options for further developing and applying strategic research from bodies such as the Land & Water Resources Research & Development Corporation to the needs assessment process of the Natural Heritage Trust;
- (e) ensure that there is, as far as practicable, a transparent, consistent and objective determination and treatment of public and private benefits in project assessments under the Natural Heritage Trust;
- (f) ensure that when determining projects to be funded under the Natural Heritage Trust, full consideration is given to the compatibility of State/Territory and local government natural resource management and environmental programs policies and practices; and
- (g) ensure proposed expenditure on each project is disaggregated sufficiently to allow DPIE and Environment Australia to compare projects of similar nature to help determine whether the Commonwealth is receiving value-for-money.

Responses:

3.71 DPIE and Environment Australia agree with this recommendation. DPIE, however, does not accept the premise that the delivery of DPIE-managed NLP initiatives has been on anything other than a needs basis. It considers that the development of natural resource management strategies to accompany the NHT partnership agreements will establish a basis for determining the need for NHT support and further needs assessment is likely to be undertaken as the NHT and its component initiatives develop. The National Land and Water Resources Audit will contribute to this process. DPIE also notes that the issue of public versus private benefit is being addressed through several avenues, including the Standing Committee on Agriculture and Resources Management. In addition, DPIE also notes that element (g) of this recommendation relates primarily to Environment Australia.

Environment Australia has indicated key administrative steps are being put in place for the NHT that will improve needs assessment processes (including better integration of Environment Australia and DPIE programs and broader representation of project assessment panels.) In relation to element (f), Environment Australia indicated that the NHT will be particularly supporting activities that are consistent with State/Territory policies and programs.

3.72 The ANAO considers that there is a clear indication that greater scientific rigour is required in assessing needs under the NHT to ensure that program funds are well targeted.

1

Joint Committee of Public Accounts, Report No.342, *The Administration of Specific Purpose Payments: A Focus on Outcomes*, AGPS, Canberra.

2

ANAO & Department of Finance 1996, *Performance Information Principles: Better Practice Guide*, AGPS, Canberra, p. 6.

3

Draft NHT Partnership Agreements.

4

Joint Committee of Public Accounts, *op. cit.*, pp. 17 - 25.

5

However, the preamble to the NLP Partnership Agreements acknowledge the existence of the Decade of Landcare Plans which do define the Commonwealth's role.

6

Forestry Technical Services Pty Limited (FORTECH) 1995, *Strategic Review of the One Billion Trees Program: Final Report*; A report for the Australian Nature Conservation Agency, unpublished.

7

P. Barrett AM 1997, *Whither Accountability in a Changing Public Sector Environment?*, A speech by the Auditor-General of Australia to the Central Agency Broker Seminar 'Towards a Best Practice

Australian Public Service, Hobart, 13 February 1997¹, unpublished, pp. 21-22.

8

SCARM & ARMCANZ 1995, *Evaluation Report on the Decade of Landcare Plan - National Overview*, AGPS, Canberra, p. 5.

9

Information on factors such as the number of landcare groups that have been established through the NLP and estimates of the amount of fencing and tree plantings.

10

Joint Committee of Public Accounts, *op. cit.*, p. 51.

11

Department of Finance 1994, *Doing Evaluations: A Practical Guide*, AGPS, Canberra, pp. 7-8.

12

F. Vancly & S Glyde 1994, *Land Degradation and Land Management in Central NSW: Farmers Knowledge, Opinions and Practice*, Report to the NSW Departments of Agriculture and Conservation and Land Management, Wagga Wagga: Centre for Rural Social Research, Charles Sturt University, pp. 27-39.

13

Woolcott Research Pty Ltd 1996, *TCM - Where to Now? An Evaluation of Community Awareness, Perceptions and Attitudes*, Volume I of IV, conducted for the NSW Department of Land and Water Conservation, unpublished, p. 18.

14

AACM International Pty Ltd & The Centre for Water Policy Research 1995, *Enhancing the Effectiveness for Catchment Management Planning: Final Report; Annex A: Policy Review; Annex B: Activity Review*, for the Commonwealth Department of Primary Industries and Energy, Canberra, pp. 5-6, 8-9, 16, 18, 22.

15

Land & Water Resources Research & Development Corporation 1996, *National Dryland Salinity Research, Development and Extension Program: Annual Report 1995-96*, LWRRDC, Canberra, p. 11.

16

ibid., p. 1.

17

AACM International Pty Limited 1995, *National Grassland Conservation Overview: Final Report*, for Australian Nature Conservation Agency, Canberra, p. 17.

18

The Murray-Darling Basin is illustrated at Appendix 3.

19

Murray-Darling Basin Commission 1996, *Cost Sharing for On-ground Works*, MDBC, Canberra, p. 6.

20

Department of Primary Industries and Energy & Environment Australia, *op. cit.*, p. 9.

21

Murray-Darling Basin Commission, *op. cit.*, p. 6.

22

This area equates to over one million rugby football fields. Should all land covered by the permits be cleared, this would equate to over two rugby football fields being cleared every five minutes.

23

Department of the Environment, Sport and Territories 1995, *Native Vegetation Clearance, Habitat Loss and Biodiversity Decline, an overview of recent native vegetation clearance in Australia and its implications for biodiversity*, Biodiversity Series Paper No. 6, Biodiversity Unit, DEST, Canberra, p. 1.

24

Forestry Technical Services Pty Limited (Fortech) 1996, *Review of Commonwealth Government Vegetation Initiatives 1989-1995*, Annex 1, unpublished, p. 47.

A strategic focus on outcomes

3.73 The Council of Australian Governments (COAG) has encouraged programs that involve a shared responsibility between the Commonwealth and the States/Territories to be more outcomes focused (although it was recognised that this would need time to accomplish).¹ The JCPA (1995) also noted that program objectives should be described in terms of desired outcomes. The JCPA found that outcomes should not be confused with outputs which are the products or services which are delivered by a program in order to achieve program outcomes. Outputs are activity while outcomes are results.²

3.74 The ANAO recognises that although outputs can usually be easily measured, outcomes can have long lead-times to come to fruition (for example, 20-30 years for some environmental activities). However, the ANAO considers that long-lead times should not preclude the measurement of outcomes and that progress towards achieving ultimate program outcomes can be measured. The JCPA notes that outcomes are often expressed in hierarchies - where lower-level outcomes (being those most directly related to outputs) must be achieved in order to achieve ultimate program outcomes³.

3.75 The then Prime Minister's 1992 Statement on the Environment specified the types of outcomes that were to be achieved from both DPIE and Environment Australia including '*returning vast tracts of degraded land to productivity or to a rehabilitated state*'.⁴

Department of Primary Industries and Energy

3.76 Implicit in the design of the NLP was the message that landcare is about the partnership of government and community to become agents of change - addressing the causes of land degradation, not just the symptoms. In order to realise this objective, the DPIE Partnership Agreements give the States/Territories responsibility for achieving project outcomes except where particular projects provide the Commonwealth or other parties with specific responsibilities for achieving identified outcomes. The States/Territories are also required to monitor project implementation, evaluate the effects of projects and submit to the Commonwealth a report on progress against outcomes. The Agreements also give the States and Territories some flexibility in how they deliver programs. These principles are broadly consistent with the COAG and JCPA position that the Commonwealth focus should be on outcomes and give delivery agencies greater flexibility in how they deliver the programs.

3.77 However, one area of weakness in program design was identified in the 1996 State of the Environment Report. In a discussion of the community component of landcare the report noted that:

'Landcare may be an inappropriate response to environmental problems in some circumstances as its scale may be too small to address whole catchment or off-farm problems such as salinity and excess nutrient run-off. Also, because the NLP is voluntary, the non-participation of farmers in critical parts of a catchment (such as aquifer recharge zones) can

undermine the good work of others'. ⁵

3.78 The ANAO considers that this argument supports the need for a strategic, integrated approach to addressing environmental and natural resource management. National, State and Territory legislation, policies and programs in this area can be assisted through well targeted Commonwealth investment such as through the NLP.

3.79 It is clear to the ANAO that DPIE has been moving in this direction with regional initiatives in a number of States (such as in south-west WA and the Mount Lofty Ranges in SA) and in strategic national projects such as the rangelands of Qld, NSW, SA and the Northern Territory that use the water resources of the Great Artesian Basin. (See Case Study 11 at Appendix 5 for further details).

3.80 The stronger focus on regional initiatives in the NHT may enable the strategic approach to be strengthened. However, to demonstrate effectiveness, appropriate performance information will need to be developed and applied by region. The ANAO notes that performance information developed in 1992 for the NLP has never been used as a management tool. This may account for the absence of outcomes information found by the evaluation of the Decade of Landcare plan.

3.81 Even though the NLP was designed to be outcome-focused, its implementation has been heavily input-oriented. A report of a workshop for Sustainable Land and Water Resources Management Committee, noted the tendency for the Commonwealth to focus on inputs rather than outcomes. ⁶ Case Study 3 illustrates the ANAO findings in this area.

Case Study 3: Administering the NLP - an over-emphasis on inputs

Both DPIE and Environment Australia place a strong emphasis on program inputs in the administration of the NLP and other Landcare programs. The ANAO found that over 44% of Commonwealth administrative resources devoted to administering the NLP and other environment programs is spent on input controls (ie. on the project application and assessment / contract negotiation process).

With respect to the NLP Commonwealth-State and Community Component (part of the One-Stop-Shop), nearly half of the Commonwealth administrative resources is spent on administering inputs. The same proportion of Commonwealth resources was used to administer the inputs for the NLP National Component - which is administered entirely by DPIE.

In the 1996-97 funding round DPIE reviewed the eligibility and appropriateness of nearly 1900, 5-7 page NLP application forms. (Approximately 800 of these were not of sufficient priority to warrant funding).



This is despite the fact that project proposals are first assessed by RAPs and then by SAPs before the States/Territories make their project funding recommendations to the Commonwealth. The ANAO considers that the Commonwealth does not take full advantage of the administrative savings that could be achieved by eliminating unnecessary overlap within the One-Stop-Shop process.

The ANAO recognises that the control over inputs provided by the One-Stop-Shop does not eliminate the Commonwealth's risks that ineligible or inappropriate projects will get recommended. However, the ANAO considers that the Commonwealth should be able to place greater reliance on the assessment process, assess the Commonwealth's residual risk and allocate Commonwealth resources accordingly to reduce those risks (see Recommendation No.11). The ANAO notes that it made a similar recommendation in its previous review of the National Landcare Program in 1993-94 (Audit Report No.29 *1993-94 National Landcare Program: Preliminary Study*) but little has been done to pursue this recommendation.

Resources saved from administering inputs could then be allocated to areas such as the planning, monitoring, review and reporting processes which the ANAO considers to be a high priority for attention.

3.82 The ANAO considers that some of the reasons which would lead DPIE to have an input focus include:

- the broad nature of program objectives and guidelines leading to uncertainty as to what the Commonwealth is seeking to achieve at the local, regional and State levels;
- a changing program emphasis and priorities over the life cycle of the program;
- potential risks from cost-shifting by State and Territory agencies in response to State/Territory budgetary pressures (refer to Chapter 4); and
- difficulty in balancing public and private benefits in NLP project applications.

3.83 Although there have been numerous reviews of the NLP which have identified program outputs, there has been no assessment of program outcomes. For example, in its review of the Decade of Landcare Plan, SCARM and ARMCANZ considered that there had been at least some progress against all of the goals of the Decade of Landcare. Some of the key achievements identified by SCARM and ARMCANZ were:

- awareness of landcare within the farming and wider community is high, as evidenced by the growth in the landcare movement and widespread involvement in community environmental monitoring;⁷
- by 1994, the number of landcare groups had reached 2200 - the target set for the whole of the Decade of Landcare for the year 2000.⁸ 1992-93 DPIE survey data suggests that Landcare members were more aware of land degradation problems on their properties, more likely to incur expenditure for landcare-related works and possess a farm plan. They were also more likely to be active in areas such as tree planting and conservation works, monitoring of water quality and conservation tillage techniques. Better practices were also being more widely adopted in the general farming sector. (Case Study 9 at Appendix 5 further illustrates the scope and achievements of the community component of the NLP);
- there has been a significant research and development focus towards the sustainable management of natural resources. For example, the LWRRDC has spent some \$40 million on research and development since its establishment in 1990 (Case Study 12 at Appendix 5 illustrates the important role that the LWRRDC has played in evaluating value for money from Commonwealth and State investment in salinity management);
- increased private sector support for landcare groups (for example, a 1991-92 survey of Victorian landcare groups revealed that 24 per cent of groups reported receiving some non-government funding and in Western Australian land conservation district committees had attracted private sponsorship equal to 41 per cent of government funding);
- agreement by the COAG in February 1994 on water reforms was a significant step [towards sustainable resource use]. Some States/Territories have already moved to introduce trading arrangements for water entitlements (SA and Victoria) and revised

pricing arrangements (ACT). The ANAO also notes that the NLP has been active in funding projects to improve the sustainable use of artesian water - 95 per cent of which is currently wasted according to State/Territory estimates. (Case Study 11 at Appendix 5 illustrates the significance of the great artesian basin project); and

- most States and Territories have in place policies or legislation relating to vegetation clearing. However, the evaluation noted that there is widespread variation in the effectiveness of these policies ⁹.

3.84 The ANAO notes that these achievements are primarily 'outputs' relevant to the Decade of Landcare Plan.

3.85 A further evaluation for the NLP was provided through the National Landcare Facilitator report in 1995 (which is funded through the National Component of the NLP). The report found that landcare had reached a critical stage in its development, with a need to move beyond awareness raising, information exchange and small-scale community projects towards a more strategic approach to the environment, social and economic problems of rural Australia. While the important role that the program has played in mobilising community action was recognised, particular administrative problem areas included:

- too much funding going into government processes not community action;
- too much paperwork;
- too little long-term funding;
- too little coordination between government departments;
- little appreciation of the scale of the problem;
- the links between the social, economic and environmental pressures are not being made; and
- lack of support for rural research, technical expertise, rural training and new industry development ¹⁰.

3.86 These matters are broadly consistent with many of the views expressed to the ANAO by stakeholders during the course of the audit. They also reflect many of the views put to the Senate Rural and Regional Affairs and Transport References Committee in relation to their Inquiry (April 1996; Interim Report). The National Facilitator's report also acknowledged that:

'there was still much fear and apathy about change in rural areas and many better practices are neither proven nor economically practical. There are often conflicts between the short term profitability and long term sustainability of an enterprise or catchment and the incentives for sustainable development are still poorly developed. In some areas, the long term viability of current production systems must be questioned ¹¹.'

3.87 In response to the National Landcare Facilitator report, DPIE noted the *'enormous challenges in moving the management of Australia's national resources to a more*

sustainable footing'. DPIE indicated that *'the landcare movement has been remarkably successful in raising awareness of these challenges'*. DPIE commented that the report also found that:

'as landcare matures and profound barriers to change are better appreciated, a stronger role for incentives and disincentives and a more comprehensive approach to skills development, research, innovation and sustainable regional development are necessary ¹².'

3.88 These findings further reinforce the need for more integrated, strategic approaches to addressing program outcomes.

Environment Australia

3.89 Environment Australia programs also lack a specific focus on outcomes both in terms of contract specifications and in terms of project reporting. The ANAO considers that this has been accentuated by the fragmentation of small environmental programs which deal with specific environmental issues (such as the protection of remnant vegetation and revegetation initiatives). This approach makes it difficult to measure outcomes which are dependent on interrelated environmental and natural resource management factors that go beyond narrow program focus. The ANAO therefore supports the NHT focus on integrated regional/catchment projects as a major new program component.

3.90 Stated 'outcomes' within contracts are, in reality, often 'outputs' or processes (for example, the Greening Australia's OBT Annual Program includes estimates of the number of trees planted, number of community meetings attended etc as outcomes) and there is generally no indication of strategy in terms of how the projects relate to such things as catchment management plans, State/Territory land clearing policies or how the revegetation projects will be affected by factors such as dieback, rising water tables, the expansion of salinity or other dynamic, environmental problems. ¹³ A strategic approach is also important to achieve a balance between the longer-term costs to taxpayers of rehabilitation and the short-term private benefits from unsustainable natural resource use in Australia.

3.91 The 1996 State of the Environment Report noted that there has been little assessment of how the OBT and STB Programs have affected the extent of tree cover or conservation of bushland. The report stated that *'at best, they make a relatively modest contribution'*. ¹⁴ Environment Australia, in correspondence to the ANAO during the audit, also questioned whether *'a \$5 million per annum program can have a significant measurable on-ground impact on a problem that in the Murray-Darling Basin alone is anticipated to require billions of dollars per year.'* Greening Australia notes that funding for the OBT program has been modest relative to the program's target of one billion trees - allowing only five cents per tree which, it is claimed, is less than five per cent of the real cost.

3.92 As was the case with the NLP, a significant proportion of Commonwealth resources are allocated to input controls for the OBT and STB Community Grants and Waterwatch programs, despite the input controls of the One-Stop-Shop process (as outlined in Case Study 3). Case Study 4 illustrates the extent of administrative

duplication and the focus on input controls in Environment Australia.

Case Study 4: Administrative overlap and Commonwealth focus on input controls: Environment Australia programs

The ANAO found that of the administration costs incurred by the Environment Australia for each program, 35.9% and 33.3%, respectively, is incurred on the project application and assessment process for the OBT and STB Community grants and Waterwatch programs.¹

With respect to the Environment Australia programs that form part of the One-Stop-Shop, each State/Territory provides three ranked lists of projects for funding (one for each program - OBT community grants, STB community grants and Waterwatch) together with a copy of the completed project application forms (at least 600 each year). Environment Australia then examines each application to determine that it meets program eligibility criteria.

OBT and STB Community Grants programs

In 1995-96, with respect to the OBT and STB Community grants programs, Environment Australia endorsed each States/Territories' ranked project list and funded all projects that fell within the funding allocated to each State/Territory without exception. The ANAO considers that given the past performance by States/Territories on submitting eligible projects and the fact that Environment Australia does not vary State/Territory priorities, Environment Australia should adopt a risk management approach to reviewing project applications. This may obviate the need for Environment Australia to examine each project application after it has also been assessed through the One-Stop-Shop process. The ANAO notes that Environment Australia has an extra administrative task associated with project applications and assessments for the OBT and STB Community Grants programs that other programs assessed under the One-Stop-Shop do not have - Environment Australia is directly responsible for issuing letters of offer to successful applicants and following-up acceptances or rejections.

Waterwatch program

In 1996-97, with respect to the Waterwatch program, four of the eight States/Territory priority lists contained ineligible projects.² After these projects were excluded, Environment Australia endorsed each State/Territory list and funded all projects that fell within the funding allocated to each State/Territory. The ANAO considers that a less

than 100% examination of Waterwatch project applications may not be possible due to the risk that some may not meet Waterwatch program eligibility criteria.

1 Environment Australia's administration costs are funded from running costs except for \$83,000 for the National Waterwatch Facilitator cost funded from program costs.

2 This may indicate that some State Assessment Panels (SAPs) are insufficiently cognisant with Waterwatch program eligibility criteria. If this is the case, Environment Australia should devote more effort to informing SAPs about the Waterwatch program.

Conclusion

3.93 The NLP administered by DPIE was originally designed in 1992 with a sound outcomes focus consistent with Council of Australian Governments' and Joint Committee of Public Accounts' recommendations. The ANAO acknowledges the important role that DPIE has played in the design of the NLP (particularly the Partnership Agreements) and in the subsequent design of the NHT. DPIE and Environment Australia have measured some outputs such as the growth in the number of landcare groups, the level of community awareness of programs and the amount of fencing to protect vegetation. However, after five years since its inception, the NLP has not had a sufficiently strong outcomes focus in its implementation to measure progress towards the main objective. The smaller, more fragmented Environment Australia programs did not have the same attention to design as did the NLP. Environment Australia is also in a similar position to DPIE in not being able to measure, after eight years since the start of the programs, the extent to which program outcomes are being achieved.

3.94 Although it is clear that some funded projects have contributed to program outcomes, overall the link between project outputs and the achievement of program outcomes is not as clear. In short, this is due to inadequate performance information and an overly input-oriented focus in program administration. The ANAO further considers that, with an appropriate risk management strategy in place, the Commonwealth could take greater advantage of the administrative savings that could be achieved by eliminating unnecessary overlap within the One-Stop-Shop processes.

3.95 The ANAO accepts that it is not always easy to measure outcomes because of factors such as the long lead times involved (for example, 20-30 years to show results). However, the ANAO considers that progress towards achieving program outcomes can and should be measured. The challenge for DPIE and Environment Australia will be to ensure that important priorities for achieving NHT program outcomes in the medium to longer term are not simply overtaken by the immediate need to manage inputs.

3.96 The ANAO considers that much greater attention should be given to developing

an integrated, strategic approach to the management of interrelated natural resource management and environmental problems. This is justification for the NHT focus on integrated regional/catchment projects as a major new program component. In addition, program funding should also be consistent with and reinforce national, State and Territory policies and regulations (such as on tree clearing) and economic incentives (such as full cost pricing for natural resource use).

Recommendation No.5

3.97 The ANAO *recommends* that DPIE and Environment Australia:

- (a) include clear specifications of program outcomes and deliverables within service delivery contracts (including Partnership Agreements) under the Natural Heritage Trust; and
- (b) develop appropriate performance information to link Natural Heritage Trust programs with key State and Territory natural resource management and environment policies and programs (such as land clearing and the use of water and land resources).

Responses:

3.98 DPIE and Environment Australia agree with this recommendation. DPIE considers that performance indicators will form a part of State strategies within the NHT Partnership Agreements. Environment Australia also noted that a focus on outcomes is a major part of negotiations with States/Territories.

1

Council of Australian Governments 1991, *Working Group on Tied Grants: Final Report to the Special Premiers Conference, Perth*, unpublished., pp. 56-59.

2

Joint Committee of Public Accounts, *op. cit.*, pp. 36, 38.

3

ibid., pp. 38-39.

4

P. J. Keating 1992, *Statement on the Environment - Australia's Environment: A Natural Asset*, AGPS, Canberra, p. 3.

5

State of the Environment Advisory Council, *op. cit.*, Chapter 7, p. 41.

6

ARMCANZ 1996, *Natural Resource Management Partnerships: Agenda Paper 27 September 1996*, Annex A: Report of a Workshop for SLWRMC on the future of the National Landcare Program Partnership Agreements, unpublished, p. 6.

7

Independent research found that awareness of landcare in Australia increased from 22 per cent in 1991 to 77 per cent in October 1995 (Landcare Australia Limited 1996, *Seventh Annual Report 1996*, Jackson Press, Sydney).

8

By 1996, the number of community landcare groups had increased to approximately 3240 (Landcare Australia Limited 1996, *Seventh Annual Report 1996*, Jackson Press, Sydney, foreword).

9

SCARM & ARMCANZ, *op. cit.*, p. 3.

10

H. Alexander 1995, *The National Landcare Facilitator Project Annual Report - 'A Framework for Change: The State of the Community Landcare Movement in Australia'*, for the Department of Primary Industries and Energy, unpublished.

11

H. Alexander, *op. cit.*, p. v.

12

Department of Primary Industries and Energy (undated), *New Directions for Landcare: A response by the Department of Primary Industries & Energy to the recommendations of the National Landcare Facilitator Annual Report*, unpublished, p. 1.

13

A departmental report on greenhouse gas emissions noted that in the ten years from 1983 to 1993, an estimated five million hectares of native vegetation was being cleared across Australia. The MDBC

has also estimated that until recently 200 000 hectares were being cleared each year in the Murray-Darling Basin.

Client focus

3.99 Having a client/customer focus is particularly important in any service delivery activity. Where the service delivery agency is separate from the Commonwealth funding entity, the management and maintenance of the client/customer focus becomes more difficult because:

- the Commonwealth becomes more distant from clients/customers; and
- the information required by the Commonwealth to ensure the service delivery agencies maintain a client/customer focus needs to be determined up-front when contracts/agreements are negotiated.

3.100 The Management Advisory Board has suggested that some of the hallmarks of quality customer service are that customer service should be:

- **satisfactory** - the customer is satisfied the best has been done to supply the service and or product;
- **timely** - given at the right time for the customer;
- **efficient** - the right service with the right information in the right sequence; and
- **courteous** - the service given to the most respected customer is the service to be extended to all customers ¹.

3.101 The draft ANAO/Management Advisory Board Better Practice Guide on Customer-Focus in a Public Sector Environment (April 1997) also concludes that the delivery of quality customer service will form a large part of the future of the public service, whether it is direct delivery or managing delivery via a purchaser-provider model. ² Customer service is becoming increasingly important because of changing customer needs and also because greater contestability is being encouraged by the Government.

3.102 Although an explicit client/customer service strategy has not been developed for the programs examined by the ANAO, DPIE and Environment Australia have made significant improvements in their client focus since the programs were first introduced. The One-Stop-Shop concept with one single application form and one set of guidelines was well regarded by all stakeholders consulted during the audit. This is being further extended under the NHT. The ANAO notes that some States/Territories incorporate some similar State/Territory landcare programs within the One-Stop-Shop process. The ANAO considers that the expansion of this

approach to other State/Territory landcare programs (where appropriate) should be encouraged as it reduces the potential for confusing clients/customers and increases the coordination and integration of similar Commonwealth and State/Territory landcare programs and projects.

3.103 Some of the major comments made by different client/customer groups are outlined below. These comments represent the particular views of each interest group. Some ANAO observations are provided on particular comments from interest groups.

States and Territories

3.104 The differences in delivery arrangements between DPIE and Environment Australia were noted by State and Territory agencies. The DPIE Partnership Agreement approach was generally supported by the States and Territories; that is, a three-year time frame for the agreement with financial assistance for larger scale projects rather than contracts negotiated annually for numerous small-scale project grants. Agriculture Western Australia indicated that the partnership approach *'provides for a seamless delivery process at the State level whilst meeting the Commonwealth's requirements for efficiency and accountability'* which is more effective than the contractual approach applied by Environment Australia.

3.105 Comments from such key stakeholders as this suggest that the Commonwealth should aim to ensure that financial assistance under the NHT maximises predicability, stability and planning at State/Territory levels - consistent with good macro economic management.

3.106 Particular areas where the States and Territories had problems with existing arrangements for Commonwealth programs were:

- planning and budgeting;
- the lengthy approval process;
- administrative overlap;
- changing priorities; and
- timing and method of announcements.

3.107 These issues are discussed in more detail below.

Planning and budgeting

3.108 Of particular concern for States and Territories is the annual funding arrangement for Environment Australia program coordinators and facilitators in the States/Territories and regions (such as STB State Coordinators and Regional Waterwatch Coordinators). These people provide the support for the various landcare programs throughout Australia. In the case of the STB program, the Queensland Department of Environment considered that such annual funding arrangements:

'limit the level of interest in the position from quality applicants, mitigates against the development of a strong commitment to the work, works against the establishment of strong community rapport and results in high staff turnover.'

3.109 The ANAO notes that this view is supported by the performance of the STB coordinator in Western Australia who has been in the position for several years. He has been particularly effective in obtaining grant acquittals and project performance reports for projects. Although the STB Coordinator in WA appears to be satisfied with year-to-year employment, many others are looking for more stable employment. While acknowledging the budget flexibility provided by annual funding agreements, the ANAO considers that this has to be weighed against the cost to program effectiveness where continuity of staffing is critical for the achievement of program outcomes. The ANAO considers that there is scope for extending the funding of State/Territory and regional coordinators and facilitators to three to five years to enable coordinators and facilitators to develop the experience necessary to administer the program effectively. Environment Australia is supportive of two to three year service delivery contracts.

The lengthy approval process

3.110 Primary Industries South Australia found that:

'There were initial concerns about the time between the call for submissions and the allocation of funding which, depending on various factors, can take almost 12 months. However, most groups have now become accustomed to this time frame albeit with some frustration. In addition, there are some problems related to the timing of the allocation of funding with respect to tree planting activities (that is, funds are available in the wrong season for tree planting).'

3.111 The ANAO found that the One-Stop-Shop process takes ten months of every year from the time funding priorities are set by Commonwealth Ministers to the time successful projects are announced. ³ In addition, funding agreements between the States/Territories and grant recipients must then be finalised before Commonwealth funds earmarked for community landcare group projects can be distributed. The Victorian Department of Natural Resources and Environment considers that the latter may take as little as two to three weeks but in some cases can extend to months. DPIE considers that it has endeavoured to minimise the time taken to approve projects.

3.112 The ANAO recognises that any national submission process will take a significant amount time to complete. However, the ANAO considers that the administrative processes for the One-Stop-Shop under the NHT umbrella could be further refined to take more account of client needs and expectations. Options that could be considered by DPIE and Environment Australia include:

- joint consideration of project proposals by the Commonwealth and the States/Territories (rather than the current sequential consideration of projects) that would allow project funding recommendations to be made to Commonwealth and State/Territory Ministers simultaneously;

- progressively devolving responsibility for smaller, community grants to either the State/Territory or catchment level where the Commonwealth was satisfied that acceptable accountability and performance measures had been put in place and where appropriate recognition would be given to the Commonwealth's investment. This would shorten the approval process and give greater flexibility as to the timing of announcements so that seasonal factors could be taken into account. (Case Study 5 illustrates that catchment level planning in some regions is reasonably advanced); and
- greater adoption of the regional initiatives approach. Agriculture Western Australia noted that devolution of Commonwealth program delivery through regional initiatives had resulted in State/Territory agencies and regional communities being more focused on strategic directions and specific outcomes. The regional initiatives component of the NLP is a good illustration of where the DPIE is already moving towards a more integrated and less input oriented approach to program delivery.⁴ For example, in the mulga lands of south-west Queensland and in the Western Division of NSW, NLP has been integrated with Rural Adjustment Scheme (RAS) assistance from DPIE and State/Territory funding for a three pronged program of:
 - property reconstruction (RAS);
 - natural resource management (NLP); and
 - integrated regional development (Commonwealth and State).

The State of the Environment Report noted that this initiative has assisted in developing a stronger focus on sustainable development priorities through:

- linking property amalgamations and re-establishment assistance for non-viable producers with reductions in grazing pressures;
- introducing best management and production practices; and
- enhancing the network of reserves and voluntary on-property conservation initiatives to protect biodiversity.

Administrative overlap

3.113 The NSW Department of Land and Water Conservation and the Victorian Department of Natural Resources and Environment were particularly concerned about overlap in the assessment process, with both the Commonwealth and the States being involved in individual project assessments. The Queensland Department of Natural Resources was also concerned about 'excessive input controls' that reduced the flexibility of the State to deliver the program. The ANAO notes that in 1996-97 DPIE reviewed some 1900 NLP applications both in terms of their eligibility and priority. Case Study 3 highlights administrative duplication and the resulting costs incurred by the Commonwealth.

Case Study 5: Goulburn-Broken catchment

The Goulburn-Broken region comprises some 2.4 million hectares within the catchments of the Goulburn and Broken rivers. It includes the Shepparton irrigation region which comprises around half a million hectares with 280 000 hectares under irrigation. Dryland agriculture covers 1.1 million hectares of the catchment, 800 000 hectares is public land, and 500 000 hectares are in the Shepparton Irrigation Region. The annual economic output of the Irrigation Region alone is \$4.5 billion.

An independent report for DPIE found that catchment management in the region was well advanced. A regional landcare plan has been prepared and there are salinity management plans in place.



The regional landcare plan provides an overall strategy for land and water management. It builds on the salinity management plans already in place and their significant community involvement aiming to set the framework for future catchment management activities. The main landcare issues identified in the regional plan were:

- maintaining vegetation cover;
- protecting water quality and quantity;
- private land management (both farm and non-farm);
- public land management;
- maintaining flora and fauna diversity;
- community and government coordination, communication and cooperation; and
- land use planning.

Sources:

The Goulburn Broken Catchment and Land Protection Board, 1996, *Draft Catchment Strategy*.

AACM, for the Department of Primary Industries and Energy (1995) *Enhancing the Effectiveness of Catchment Management Planning; Annex B: Activity Review*, AACM International, Adelaide, pp.18-19.

Changing priorities

3.114 As noted by Agriculture Western Australia;

'Commonwealth initiated changes were often not clearly enough communicated nor sufficient time given to fully consult with community interests. At some points the frequency of change itself was more than the community could deal with. This exacerbated the criticism of landcare dollars not hitting the ground.'

3.115 The ANAO notes that while program priorities are the responsibility of Ministers, DPIE and Environment Australia have an obligation to communicate these priorities as efficiently as possible. DPIE notes that Ministerial priorities have remained the same except for one year where only one priority was varied.

Timing and method of announcements

3.116 The Victorian Department of Natural Resources and Environment expressed concern that:

'currently funding announcements are made in isolation of the respective State and prior to any formal advice to the respective State co-ordinating agency. This has in the past lead to incorrect announcements being made and more importantly, fails to recognise State contributions to programs and drives a wedge in the process of the State joining the Commonwealth in a One-Stop-Shop process that is inclusive of both State and Commonwealth programs.'

3.117 In addition, unsuccessful applicants rang the State department to find out why they were not successful. This put State officials in an difficult position both in terms of their budget appropriations and in terms of their role as service delivery agency. DPIE considers that comments from Victoria on the timing of announcement does not apply to DPIE. DPIE indicated that following his approval of projects, the Commonwealth Minister sends his State/Territory counterparts a complete list of projects on the following morning.

3.118 The ANAO considers that a 'feedback loop' is needed to ensure that clients know how their applications are progressing through the One-Stop-Shop. From the Commonwealth's perspective, desirable features in a feedback loop include coordinating the timing of announcements of different Commonwealth Landcare programs/components (including those that are not assessed through the One-Stop-

Shop) and a joint Commonwealth-State/Territory announcement on successful projects assessed through the One-Stop-Shop.

Community, industry and environment groups

3.119 A wide variety of views has been expressed by these client groups both to the ANAO and in other fora such as the Senate Rural and Regional Affairs and Transport References Committee Inquiry into landcare policies and programs. In addition to policy issues, the interim report of the Committee (April 1996) noted concerns in the following administrative areas:

- the amount of landcare funds consumed by administrative costs;
- funding delays;
- requirements to spend funding within inappropriate time frames;
- complexity of funding applications;
- use of NLP funds by State/Territory government agencies at the expense of landcare groups (Case Study 6 refers);
- the cost of incorporation and insurance;
- coordination of landcare with other government programs;
- adequacy of research;
- communication of research results and general information to landcare groups;
- possible failure to understand the objectives of the landcare group of programs; and
- coordination of landcare with other programs.

3.120 The National Landcare Advisory Committee has also commented on the NLP within the context of the establishment of the NHT. In summary, while the National Landcare Advisory Committee supported the partnership agreements approach, suggestions for administrative improvement were geared towards reducing the administrative cost of managing landcare funding. Particular recommendations were for:

- the introduction of risk management in compliance standards (for example, having appropriate audit mechanisms for different types of grants, avoiding the investment of a disproportionate amount of time in administering small project grants and human resource projects),
- including evaluation in the project design;
- introducing some flexibility/discretion for larger, longer-term projects that might need to change over time;
- introducing a geographical basis for schedules and evaluation of the partnership

agreements;

- including the measurement of the qualitative and/or unintended positive consequences (for example, social aspects) of complex natural resources management programs such as the NLP; and
- devolving more responsibilities to effectively 'empower' community decision making on priority natural resource management issues.

3.121 Environment groups were particularly concerned about the quality of the needs assessment process (particularly in relation to the poor quality of information on biodiversity), the potential bias in favour of agricultural interests within regional and State assessment panels and cross-compliance between the NLP and other processes such as land clearing.

Case Study 6: Analysis of NLP Community component funding

Numerous submissions to the Senate Rural and Regional Affairs and Transport Reference Committee Inquiry into landcare policy and programs criticised the distribution of funding to State/Territory government agencies at the expense of landcare groups.

The ANAO has observed that of the \$229.4m distributed under the NLP (excluding the National component) in the past three financial years (1993-94 to 1995-96), 78.2% (\$179.4m) was earmarked for Commonwealth-State projects and 21.8% (\$50.0m) was allocated to the NLP Community component. However, the ANAO found that although a total of between \$12.7m and \$20m has been allocated to the NLP Community Component in the each of past three financial years, only a portion of these funds is distributed to landcare groups. The portion retained by the States/Territories (on average 60.5%, 55% and 42% for 1993-94, 1994-95 and 1995-96 respectively) is managed by the relevant State/Territory department or agencies on behalf of community groups for Capacity Building and Landcare support projects as well as a Decade of Landcare Monitoring Coordinator in each State/Territory. Community Landcare groups, therefore have received (and directly managed) on average only 10.4% of NLP funds (excluding the National component) over the past three financial years. Table A provides an analysis of NLP Community component funding.

Table A- Break-up of NLP Community component funding (\$ 000s)

	1993-94	1994-95	1995-96
NLPCommunity(State managed)	7679	9563	8301
NLPCommunity(Community groups)	5013	7822	11479
Total	\$12692	\$17385	\$19980

Table B highlights 1995-96 NLP Community component funding by State/Territory. It demonstrates that State-managed NLP Community component funds in Vic, WA, SA, Tas and ACT outweigh funds distributed to community landcare groups.¹

Table B - Break-up of 1995-96 NLP Community component funding by State/Territory (\$ 000s)

	NSW	Vic	Qld	WA	SA	Tas	NT	ACT	Total
NLPState-mgd	1272	1370	1254	1669	1408	946	310	72	8301
NLPCommunity	3808	942	3435	1352	902	725	308	6	11479
Total	5080	2312	4689	3021	2310	1671	618	78	19980

Due to rounding, figures do not necessarily add exactly to total.

The 1995-96 NLP Guide to Community Group Applications states that applicants can be either a community group or a combination of groups; a local government working with one or more community groups; or an individual. DPIE indicated that NLP Community component funding was used to fund State/Territory-proposed projects according to merit and SAP rankings. The ANAO notes that the 1997-98 NHT Guide to Community Group Applications contains the same applicant criteria as did the 1995-96 Guidelines.

1 The Victorian Department of Natural Resources and Environment notes that all eligible community projects are funded before State agency projects are funded and all projects recommended to the Commonwealth are fully supported by the local community, the RAPs and the SAPs. Primary Industries South Australia indicated that as the number and skills of community groups increased, so has their proportion of funding. Primary Industries South Australia further indicated that support landcare positions (funded under the Community component but managed by the State) are crucial to the success of the NLP and that in fact funds for some SA Commonwealth-State projects go directly to Community Groups.

Conclusion

3.122 DPIE and Environment Australia have made major improvements to their client focus since the inception of the programs. The One-Stop-Shop process was well supported as a concept by all stakeholders consulted during the course of the audit. However, there was a general consensus that improvements could still be made. In particular, the time frame for the process is too long (about ten months) and project announcements are not always made at the appropriate time to implement projects (for example, seasonal factors are not always considered) This results in further delays. Confusion among client groups is also apparent over the number of different but related Commonwealth and State/Territory programs. The ANAO considers that significant improvements to program efficiency can be made through a better client focus that includes measures such as broad-banding of related programs at the regional level and more use of discretionary block grants to regional catchment committees where appropriate accountability and performance measurement mechanisms have been put in place.

Recommendation No.6

3.123 The ANAO *recommends* that DPIE and Environment Australia develop a stronger client focus for Natural Heritage Trust programs in conjunction with the States and Territories and other service delivery agencies by:

(a) facilitating planning and budgeting by introducing for example, two- to three-

year service delivery contracts as appropriate;

(b) establishing risk management processes for reducing the time for project approvals under the Natural Heritage Trust using methods such as:

(i) joint Commonwealth-State assessment rather than sequential consideration of projects,

(ii) progressively allocating discretionary block grants to regional catchment committees where appropriate accountability and performance measurement mechanisms have been put in place; and

(iii) broad-banding funding for regional initiatives where it complements other programs such as the Rural Adjustment Scheme;

(c) making every effort to ensure that program priorities are properly determined and incorporated within the program guidelines before application forms and guidelines are sent to client groups;

(d) evaluating whether the One-Stop-Shop concept should be expanded, to facilitate the joint promotion and administration of related Commonwealth and State/Territory programs and reduce client confusion; and

(e) considering the merits of funding larger, high priority, catchment level projects over for example, two- to three-year periods rather the larger numbers of smaller grants made under former programs.

Responses:

3.124 DPIE agrees with this recommendation except for element (d) where it agrees with reservation. The reservation relates to DPIE's view that assessment panels are already at the limit of the time they can devote to such activities. DPIE does not consider that it sequentially assesses projects. Environment Australia agrees with this recommendation. However, Environment Australia has some concerns that recommendation 6 may be contradictory in terms of the degree of accountability required compared with that of other recommendations. Environment Australia also indicated that program priorities will be better defined in NHT guidelines in future years. Environment Australia and DPIE will be reviewing One-Stop-Shop processes to further reduce client confusion.

3.125 Figure 3 illustrates the sequential nature of the approval process. Although, DPIE acts as an adviser/observer to the SAPs, State/Territory project funding recommendations are reviewed by DPIE before being forwarded for Commonwealth Ministerial approval. The ANAO considers that an increased emphasis on joint Commonwealth/State project assessment will shorten the time taken to approve projects. The ANAO also considers that the development of clearer guidelines and encouraging fewer projects of strategic, longer term value would assist in reducing pressures on assessment panels. In relation to Environment Australia's comment, the ANAO considers that the need for accountability is not diminished through devolution and improved efficiencies in program delivery. Appropriate reporting

requirements and transparency of process are integral to any successful devolution of authority. This is the thrust of ongoing public service reforms.

Monitoring, review and performance reporting

Program monitoring, review and reporting

3.126 The JCPA describes a model for monitoring and assessing performance of Specific Purpose Payments:

'monitoring should be undertaken by all agencies involved in specific purpose payment) administration ... At the very least, all agencies involved, including the Commonwealth, should be monitoring and assessing their own performance. However, in terms of external performance monitoring, the Committee believes that the Commonwealth should have primary responsibility for assessing the performance of Specific Purpose Payments towards meeting national objectives ⁵.'

3.127 The Council of Australian Governments stated that:

'in areas of shared responsibility between the Commonwealth and the States/Territories, there should be clear agreed objectives that are expressed in terms of desired outcomes, a clear definition of roles and responsibilities, and an appropriate accountability and performance evaluation mechanism. Agreements on areas of shared responsibility should define the reporting and information requirements that are to be met by the relevant parties, including the need to provide information necessary to assess achievement of objectives, outcomes and outputs ⁶.'

3.128 The annual reporting requirements of Commonwealth Departments states that:

'annual reporting requirements have been designed, in particular, to emphasise program performance and the achievement of program objectives - that is, a focus on results. They are intended to provide sufficient information for the Parliament to make a fully informed judgment on departmental performance, while avoiding excessive and extraneous detail'. ⁷

3.129 Departments are also advised that *'descriptions of activities and outputs be minimised' and that it 'is their impact or effectiveness which requires discussion'. ⁸*

3.130 Monitoring, reviewing and reporting are variable across the Landcare programs examined. The Review of the Decade of Landcare Plan provided a useful overview of State/Territory and community activities but noted that *'the absence of clearly defined outcomes and performance indicators'* was a constraint to their review. ⁹ DPIE in particular has funded extensive reviews of the NLP, as discussed in the Strategic focus on outcomes section of this chapter. DPIE alone has provided some 20 submissions to inquiries and reviews on the NLP. It would be reasonable to conclude that DPIE has been very diligent in providing reports to Parliament and other research and policy development agencies such as the Productivity Commission. However, while these reviews give a sense of what is being undertaken and some information on outputs (such as in relation to the community component of the Landcare program), there is little clear indication of results or progress against the

original program objectives.

3.131 Under the Partnership Agreements, the States and Territories are required to submit annual reports for each schedule to the agreements **or** each project. The ANAO found that all States and Territories provide annual reports for each project (through continuing project applications which records project progress against the previous year's workplan and objectives) as opposed to annual reports for each schedule to the agreements. The ANAO considers that this approach substantially reduced the value of the schedules (and the included performance indicators). The ANAO notes that this issue has been addressed in the draft NHT Partnership Agreements.

3.132 In Environment Australia, the Drought Landcare Program was well documented with photographic evidence to support the statements on outputs. The 1994 and 1995 reviews by Environment Australia of the STB and OBT programs provided a sound basis for improving program administration and the department has responded positively to the recommendations. However, as noted in the 1995 review of the OBT program, assessing the effectiveness of the program was difficult because:

- there was no clear definition of goals for individual program elements and how these were linked to wider OBT objectives; and
- there has been no clear consistent structure for reporting OBT expenditures.

3.133 The Waterwatch and RMCOG/NCOG programs have not undergone reviews similar to those for the OBT and STB programs.

3.134 Reporting in some areas has also tended to be on outputs based on extrapolation and estimates provided by service delivery agencies (for example, 600 million trees planted, seed banks being developed in most States/Territories and production of technical manuals).

3.135 An examination of 1995-96 annual reports for both DPIE and DEST (of which Environment Australia forms a part) also reveals an emphasis on 'activity' without mention of progress in achieving outcomes. The ANAO considers that information available in the annual reports has not allowed Parliament to make a fully informed judgment on departmental performance.

3.136 Overall, programs in both DPIE and Environment Australia fall short in terms of appropriate monitoring of projects, evaluation and reporting of outcomes.

3.137 The draft Partnership Agreements between the Commonwealth and the States/Territories for the National Heritage Trust more clearly outline the Commonwealth's monitoring and evaluation responsibilities. It recognises the need for the Commonwealth to:

- agree with the States/Territories on appropriate mechanisms for monitoring and evaluating the programs and projects;

- evaluate the extent to which actions or activities of governments and applicants result in a net positive achievement towards NHT objectives; and
- undertake audits to ensure that agreed monitoring and evaluation measures are effective.

3.138 The draft Partnership Agreements also clearly outline the States'/Territories' reporting requirements. However, DEST's annual reporting requirements contained in Section 33 of the *Natural Heritage Trust of Australia Bill 1996* ('the Bill') are ambiguous. The Bill states that an annual report must include '*a report about the operations of the [Natural Heritage Trust] ...*'. The ANAO considers that the Commonwealth's reporting requirements should be more clearly defined by requiring the Commonwealth to report on all areas of Commonwealth responsibility under the Partnership Agreements. This could be achieved by including a requirement in the Partnership Agreements that in meeting its statutory reporting requirements (under the Bill), the Commonwealth's annual report must address all areas of Commonwealth responsibility as outlined in the draft Partnership Agreements.

3.139 Greening Australia Limited is required under the OBT Service Delivery and RMCOG/NCOG contracts to produce a final report for each program at the end of each contract period (financial year). The final reports outline the achievements and highlights for each OBT and RMCOG/NCOG funded project. Environment Australia has received all OBT final reports and as a result there are no OBT Service Delivery project acquittals outstanding. Similarly, Environment Australia has received all RMCOG final reports when due, although some RMCOG projects are yet to be finalised. Once finalised, these projects will be included in subsequent NCOG final reports. The first final report for the NCOG program was not due until the end of March 1998.

3.140 The ANAO has observed, however, that the OBT final report prepared by Greening Australia does not necessarily relate actual project performance to the proposed performance contained in the OBT annual program. The ANAO also found that performance measures additional to those contained in the annual program were sometimes used to describe actual project performance. The ANAO considers that all OBT projects should measure their performance against the performance indicators and targets stated in the OBT annual program.

Management information systems

3.141 An essential ingredient for efficient and effective monitoring and reporting of program performance is an appropriate and cost-effective management information system.

3.142 The JCPA stated that:

'... it is the responsibility of the Commonwealth to ensure all parties to Specific Purpose Payments agreements are providing compatible and comparable data that will allow valid assessments of Specific Purpose Payments' performance'. ¹⁰

3.143 The ANAO, in an earlier audit report found that:

'ideally, there should a single, comprehensive management information system that collects and collates data which is then processed and reported in a customised format that suits the particular requirements of various users at each level of government. An integrated approach to management information can provide considerable resource savings for both levels [of government]. Common systems across all States/Territories can also lead to savings, particularly by avoiding the high costs of development and maintenance of separate systems which are essentially designed to meet the same needs. Commonwealth agencies are uniquely placed to take a lead role in the identification, coordination and adoption of best practices in this area ¹¹.'

3.144 For a management information system to work effectively, it must collect relevant performance information. This presupposes that departments know what types of performance information on inputs, processes, outputs and outcomes it needs to collect. As described earlier in the Chapter, both DPIE and Environment Australia have experienced difficulties in measuring program outcomes. Nevertheless, a reasonable management information system should be able to collect and collate input, process and output (and outcome, where available) performance information from individual projects, to allow a program-wide view of performance in these areas.

3.145 The reliability of performance information is also important in a good management information system. As the information supplied by grant recipients or service delivery agencies forms the primary basis of assessing the performance of Landcare programs, it is necessary for the Commonwealth to be satisfied that this information is a true reflection of performance. The ANAO recommended in an earlier report that the:

'inclusion of specific provisions in agreements to allocate responsibility for compliance and value for money auditing and the establishment of mechanisms to determine the appropriate minimum levels, frequency and timing of internal audit coverage would greatly assist in this regard ¹².'

3.146 The systems used by DPIE and Environment Australia and the reliability of the performance information are discussed below.

Department of Primary Industries and Energy

3.147 DPIE's Program Management Database (PMDB) is a network-based database that records all projects funded under the NLP since its inception in 1992-93. Most of the information on PMDB is gleaned from NLP funding application forms.

3.148 PMDB is recognised by DPIE as being inadequate for program or project management purposes. In a letter to the JCPA secretariat in October 1995, DPIE stated that it:

'had been developing an NLP database which was in the final stages of refinement and testing. The issue of electronic data exchange with the States and Territories was regarded as being more complicated because of issues of software compatibility and data security, but the

matter was being pursued with the States.'

3.149 DPIE indicated that its database location function has been improved so that more detail can be recorded. However, the ANAO considers that the current DPIE management information system is still no further advanced than in 1995. The ANAO's earlier audit of the NLP in 1994-95 also recognised that improvements could be made to DPIE's management information systems. In that audit, the ANAO recommended that DPIE link or integrate its Landcare databases and pursue opportunities for electronic data interchanges with the States and Territories to improve efficiency and effectiveness and minimise duplication. ¹³

3.150 Table 10 highlights the shortcomings of PMDB as a management information system. In addition to the findings illustrated in Table 10, the ANAO found that:

- due to long-standing problems with electronic data exchange from the States/Territories, most of the data on the database are entered manually (including funding and payment data). Two DPIE officers are engaged full-time for about two months each year just to enter NLP project application information on PMDB;
- the reliability of the funding and payment data recorded on PMDB was so questionable that the ANAO could not place any reliance on it. DPIE has recognised this shortcoming of PMDB and has used separately-maintained, PC-based spreadsheets since 1993-94 to record NLP payments and monitor grant acquittals. ¹⁴ (The ANAO considers that unless the funding and payment data entered onto PMDB is accurately recorded, DPIE is wasting its resources entering funding and payment data into the database in the first place);
- a second set of separately-maintained, PC-based spreadsheets are used to record the receipt of some project completion reports; ¹⁵ and
- the project summaries recorded on PMDB that are used to produce DPIE's NLP Compendium of Projects are taken from *new* project application forms only. ¹⁶ Thus project progress recorded on *continuing* project application forms and project completion reports are not included as part of the Compendium. As a result, the Compendium only records what projects *intend* to do and aim to achieve rather than *actual* project achievements.

Table 10 - Status of data that can be recorded on DPIE's Program Management Database (PMDB)

Information type	Information recorded?	Information reliably accurate and up-to-date?	ANAO report reference
Project details (including applicant organisation, project title, location, funding duration, project summary and description)	Yes	Yes	
Project milestones (including activity summaries and target	Rarely ¹	not applicable	

completion dates)				
Project funding details (including NLP funding requested for the current and past years, funding secured from community groups and State/Territory departments, and estimates of NLP funds left unspent from the previous year)		Yes	No	para. 3.31, Case study 7
Project payment details (including the date and amount of each NLP payment)		Sometimes ²	No	para. 3.150
Project acquittal details	Grant acquittals	No	not applicable	para.4.5 & 4.6
(including dates when grant acquittals and project completion reports are due and received)	Project performance reports	Rarely ¹	No	para. 3.158

1 Some of this information has been recorded for only a handful of the thousands of NLP projects.

2 Some of the project payment information is recorded.

3.151 Currently, DPIE is investigating ways of improving its management information system. The ANAO notes that Victoria has been developing an innovative approach to their management information system with an 'on-line' link between their RAPs and SAP which will help to streamline administration. South Australia and Western Australia are also exploring similar options.

Environment Australia

3.152 Environment Australia's Project Contract Management System (PCMS) is a network-based relational database that records all projects and contracts that it funds (including the programs examined by the ANAO). At the time of audit, PCMS had been only partially operational for about a year. Therefore, the ANAO did not undertake an in-depth analysis of PCMS. Once data from the previous database are incorporated into PCMS, the database will be almost fully operational. However, a brief examination of the database design has revealed that PCMS has the potential to be a good management information system so long as it is maintained and information recorded is up-to-date. Two particularly good features of PCMS are its ability for users:

- to generate ad-hoc reports on any database information (or combinations of information) at any time; and
- to add extra tables to the database that can collect and collate program-specific information for monitoring and performance reporting purposes.

3.153 As part of its investigation into ways of improving its own management information system, DPIE is examining Environment Australia's PCMS with a view to either expanding it to encompass relevant DPIE programs, replicating it for use by DPIE or getting ideas of possible design features for a separately-developed database.

3.154 Management information systems are being improved in both DPIE and Environment Australia; although the ANAO notes the slow progress towards implementing the recommendation arising from the earlier ANAO audit into the NLP administered by DPIE. As the Government intends for the NHT to be administered jointly by DPIE and Environment Australia for the next five years, the ANAO considers that it is in the Commonwealth's interests for DPIE and Environment Australia to use an integrated database as a management information system. A database that contains the features of the database used by Environment Australia should be sufficient for this purpose. A common database could:

- reduce database information technology support costs;
- reduce hardware costs as the database may be able to run on a single computer network; and
- reduce potential electronic data exchange problems with State/Territory departments (which will be responsible for delivering NHT programs for both DPIE and Environment Australia).

3.155 The ANAO further considers that during the development of a common database, DPIE and Environment Australia should investigate the feasibility of extending the common database to the States/Territories (and other service delivery agencies). Should it prove not to be feasible, the ANAO considers that DPIE and Environment Australia should develop an electronic data transfer facility between the State/Territories and the Commonwealth.

Project monitoring

3.156 Service delivery agencies are responsible in the first instance for monitoring projects funded by the Commonwealth; although ultimate responsibility for project outputs and outcomes still rests with the Commonwealth. Where programs are delivered by the Commonwealth itself (such as the NLP National component and OBT and STB Community grants) full project monitoring responsibility rests with the Commonwealth.

3.157 Annual reports produced by Greening Australia for the OBT Service Delivery and RMCOG/NCOG programs summarise project achievements; and demonstrates to Environment Australia the monitoring/oversight functions performed by Greening Australia in relation to funded projects. This obviates the need for Environment Australia to receive individual project reports. However, in the absence of annual reports from States/Territories on the schedules to the Partnership Agreements (which would report program achievements against agreed performance indicators and targets - see para. 3.131), DPIE has become involved in monitoring individual projects. The ANAO notes that the Partnership Agreements also require States and Territories to submit individual project reports to DPIE.

Project performance reports

3.158 At the completion of all NLP Commonwealth-State and Community funded projects, the relevant State/Territory department is required, under the Partnership

Agreements, to provide project performance reports and copies of any published material to the Commonwealth within six months of project completion.¹⁷ DPIE estimates that in the mid-1980s (with respect to the NLP precursor programs), 40-50 reports were expected annually, rising to approximately 600 reports expected during 1996-97.¹⁸ However, DPIE's records, where available, indicate that only 643 reports have been received in total (see Table 11) over the past three-to-five years (although this situation is due in part to the considerable backlog of unprocessed reports that DPIE are yet to enter into its database). DPIE recognised the problem with outstanding project performance reports in April 1996. However, as at April 1997, little progress had been made to clear the backlog of reports and manage the continuing influx of reports each year.

3.159 DPIE maintains a PC-based schedule for monitoring the status of NLP National Component projects. This schedule was examined by DPIE Internal Audit in October-November 1996. They found that the schedule was an incomplete record of NLP National Component projects and that some of the recorded information was inaccurate. DPIE Internal Audit recommended and DPIE agreed to update and regularly maintain the schedule. The ANAO endorses the finding and recommendation of DPIE Internal Audit. DPIE indicated that the updating of the NLP National Component data is now complete.

3.160 Waterwatch funding recipients are also required to submit project performance reports. However, contracts do not specify at what time these reports fall due. In addition, Environment Australia does not maintain collated information as to which Waterwatch project performance reports have been received or are overdue. The ANAO considers that Environment Australia should maintain records that indicate which project performance reports have been received or are overdue.

3.161 Table 11 below summarises the extent to which project performance reports have been received for the NLP Commonwealth-State and Community component and the OBT and STB Community Grants program. DPIE was able to provide schedules on reports received from NLP Commonwealth-State and Community grant recipients in only six of the eight State/Territory jurisdictions. The ANAO found that the majority of completed projects funded have not submitted a project performance report or, in the case of NLP Commonwealth-State & Community Grants, DPIE has not recorded project performance reports when received. This makes it difficult to assess the contributions that projects have made towards the achievement of program objectives.

Table 11 - Project performance reports outstanding according to

Commonwealth records as at January 1997

	NLP Commonwealth-State and Community components			1993-94 and 1994-95 OBT Community Grants			1993-94 and 1994-95 STB Community Grants		
State/ Territory	No. due ¹	No. over- due ²	Percent overdue	No. due ³	No. over- due	Per cent overdue	No. due ³	No. over- due	Per cent overdue

NSW	NS	NS	unknown	87	53	60.9	86	62	72.1
Vic	552	212	38.4	60	44	73.3	79	47	59.5
Qld	436 ⁴	341	78.2	51	43	84.3	44	33	75.0
WA	415	248	59.8	104	68	65.4	66	16	24.2
SA	248 ⁵	201	81.0	58	39	67.2	95	57	60.0
Tas	NS	NS	unknown	48	38	79.2	67	30	44.8
NT	87 ⁶	82	94.3	27	19	70.4	17	12	70.6
ACT	13	12	92.3	7	5	71.4	8	4	50.0
Norfolk Is.	-	-	-	-	-	-	1	1	100.0
TOTAL	1,751	1,096	62.6	442	309	70.0	463	262	56.6

1 Where the actual finish date (or estimated finish date where no actual finish date exists) is before 1/8/96 (to make allowance for the six months deadline for the provision of project completion reports by the States/Territories).

2 DPIE may have received some NLP Commonwealth-State and Community project performance reports from the States/Territories and not yet recorded them as being received.

3 Exclude eighteen 1994-95 Joint OBT and STB projects, eleven of which are still outstanding.

4 Does not include eighteen projects where an estimated finish date or actual finish date has not been specified.

5 Does not include one project where an estimated finish date or actual finish date has not been specified.

6 Does not include five projects where an estimated finish date or actual finish date has not been specified.

NS Schedules could not be provided by DPIE.

3.162 The States/Territories consider that DPIE's records significantly understate the number of NLP project performance reports submitted by the States/Territories.

Follow-up of outstanding project performance reports

3.163 Action from DPIE to follow-up outstanding NLP project performance reports with the States/Territories in the past two years has involved one or two letters to each jurisdiction stating that project reports are outstanding. During the course of the audit, DPIE requested Primary Industries South Australia to advise them of action to follow-up outstanding project performance reports. Most informal follow-up is not documented although one DPIE officer indicated that he has spoken to representatives from one jurisdiction about the lack of project reports on a number of occasions in the last two years. Tasmania is the only jurisdiction where DPIE could be said to be on top of the outstanding project reports situation. A file note indicates that the Tasmanian Department of Primary Industries and Fisheries has written to grant recipients of all completed projects requesting project performance reports and that DPIE should receive the high number of reports shortly.

3.164 A recent examination of the Management of Landcare Payments by DPIE Internal Audit found that management information and follow-up of project performance reports for the NLP Commonwealth-State and Community components appeared to be adequate and in the past year considerable improvements had been made to the process. However, the ANAO found little evidence to suggest that the outstanding project performance report follow-up process is improving. The ANAO considers that the management information system used by DPIE to monitor the submission of project performance reports in five of the eight State/Territory jurisdictions is not adequate to ensure that project performance reports are submitted when due and that appropriate follow-up activity is undertaken. The ANAO considers that DPIE should maintain appropriate records that allows DPIE to readily:

- determine when projects are due to be completed;
- determine when project performance reports are due to be submitted;
- determine which project performance reports are overdue; and
- follow-up outstanding project performance reports with the relevant State/Territory departments.

3.165 The schedules maintained by DPIE in relation to NT, SA and QLD projects are adequate for ensuring project performance reports are received.

3.166 OBT and STB Coordinators in each State/Territory, in the first instance, are responsible for ensuring that grant recipients submit project performance reports. ¹⁹ The ANAO considers that responsibility for following up outstanding reports clearly lies with the Commonwealth. Environment Australia has not followed up the outstanding OBT and STB Community project performance reports with the grant recipients concerned although it intends to formally follow-up outstanding 1993-94 project performance reports during 1996-97 - over two years since the reports were due. The ANAO considers that such lengthy delays in following up project performance reports inhibits the likelihood of obtaining them. In any event, the lateness of such reports begs the question of their usefulness. Chapter 4 of this report examines the sanctions which may be applied to grant recipients who do not acquit their grants in a timely manner.

Independent monitoring of project performance

3.167 A process of independent project monitoring is essential to ensure that project performance reported by service delivery agencies and other grant recipients is accurate. The ANAO found that programs delivered by States/Territories had a process in place to independently monitor Commonwealth-funded projects.

3.168 Although primary responsibility for monitoring project implementation and evaluation of the effects of NLP Commonwealth-State and Community projects rests with State/Territory departments under the Partnership Agreements, DPIE in September 1996 established an Operating Plan for NLP Project Evaluation and Monitoring. The Plan calls for DPIE staff to visit at least two regions from each

State/Territory every year to evaluate a range of NLP Commonwealth-State and Community projects chosen according to size, theme, risk management principles, specific issues and known problems. Visits are intended to be undertaken cooperatively with lead State/Territory departmental staff. A report on project evaluations undertaken each year will be included in the annual report on the NLP for the 1996-97 financial year onwards. The ANAO considers that the Operating Plan for NLP Project Evaluation and Monitoring provides a good risk-based approach to project monitoring.

3.169 DPIE also funds an Evaluation Coordinator position in each State and Territory to coordinate the monitoring, evaluation and review of the NLP and Decade of Landcare activities. The Evaluation Coordinators are not expected to undertake detailed monitoring and evaluation activities themselves but are to provide advice on evaluation to SAPs, community groups and other interested parties; collect data to assist in evaluation of the NLP and Decade of Landcare Plans in 1997-98; act as a coordination point for the Commonwealth when it does evaluation work in the particular States/Territories; and contribute to general monitoring and evaluation activities. State/Territory Evaluation Coordinators are focussed primarily on State/Territory priorities although DPIE has endeavoured to coordinate their activities and obtain agreement to common evaluation techniques and methodology. The ANAO considers that the coordination of evaluation efforts is critically important to an outcomes focus for the NLP; and DPIE should make this a higher priority between now and the end of the Decade of Landcare.

3.170 With respect to the STB Community Grants program, contracts between Environment Australia and the relevant State/Territory departments require STB Coordinators to inspect and monitor STB projects funded in previous years. In 1996-97, Environment Australia introduced a review quota of 20 per cent of the previous year's projects and developed a proforma site visitation form that STB Coordinators are required to complete for each project reviewed. The OBT Service Delivery contract also requires Greening Australia to review OBT Community Grants in a similar fashion to STB Coordinators. The ANAO considers that the approach taken by Environment Australia to audit the OBT and STB Community Grants programs performance information reflects an appropriate application of risk management principles. The monitoring process employed by the OBT and STB Community Grants programs goes so far as to implement a standard reporting format for project reviews. The ANAO endorses the use of standard reporting formats, where appropriate, as such standardised information can be easily incorporated into a management information system for later collation and program performance reporting purposes.

3.171 Waterwatch contracts between Environment Australia and the relevant State/Territory departments require State/Territory departments to coordinate and monitor progress of the Waterwatch projects in their State or Territory. However, the format of this monitoring is not specified.

3.172 With respect to the OBT Service Delivery and RMCOG/NCOG programs delivered by Greening Australia, the ANAO found that there is no process for

independently reviewing projects funded through these programs. Environment Australia indicated that although this is the case, previous independent reviews of the OBT Service Delivery program and the RMCOG program has lead to improvements in the focus and delivery of these programs. Although these programs have been evaluated, the ANAO considers that Environment Australia should develop and implement an on-going process for independently monitoring project performance reported by Greening Australia.

Conclusion

3.173 Overall, monitoring, review and performance reporting has been variable across programs and falls short of identified better practice. The many reviews and evaluations to which DPIE has provided submissions give an indication of projects being undertaken, and at least some information on outputs but there is little clear indication of results or progress against original NLP program objectives. Environment Australia's program evaluations of the STB and OBT programs has resulted in improvements to administrative practices and priorities. However, management information systems and project monitoring in both departments have not been adequate to properly manage the potential risks. The ANAO recognises that Environment Australia's newly-introduced management information system should assist in better monitoring and reporting of program performance.

3.174 Performance reporting by States/Territories has been limited to individual projects. Consequently, the schedules to the Partnership Agreements (containing performance indicators and targets) have been substantially reduced in value as a management tool. The ANAO noted that this issue has been addressed in the draft NHT Partnership Agreement.

3.175 DPIE's records indicate that, as at January 1997, more than half of the NLP project performance reports were overdue. However, the ANAO found that this may be attributable at least in part, to inadequate records management by DPIE. More than half of the OBT and STB Community Grants project performance reports are also overdue.

3.176 Reports generated for Environment Australia under the OBT Service Delivery program do not always relate actual project performance targets/milestones to proposed targets/ milestones set out at the start of the year. The ANAO also found that programs delivered by States/Territories had an on-going process in place to independently monitor project performance reported by the grant recipients. This was not the case for the OBT Service Delivery, RMCOG and NCOG programs.

Recommendation No.7

3.177 The ANAO *recommends* that DPIE and Environment Australia ensure that:

- (a) Natural Heritage Trust programs' performance disclosures adequately meet Commonwealth annual reporting requirements by focussing more on program outcomes rather than just program activities;
- (b) States, Territories and non-government service delivery agencies be required to

provide to the Commonwealth an annual report on progress in achieving the objectives, targets and milestones of the relevant programs under the Natural Heritage Trust;

(c) progress against all objectives, major targets and milestones is reported to the Parliament as part of the Commonwealth's annual reporting requirements under the *Natural Heritage Trust of Australia Bill 1996*;

(d) management information systems are sufficiently accurate and reliable so that information such as project status and the achievement of milestones is recorded and used as part of the program management and reporting system;

(e) there is consistency and compatibility between the two agencies in the design and structure of a suitable management information system so that reporting requirements can be readily cross referenced;

(f) the feasibility of extending the Commonwealth's management information system to the States and Territories, or facilitating compatibility of systems, are examined (so as to reduce duplication of effort and costs and assist with the efficient sharing of information as part of the partnership approach);

(g) outstanding project performance reports are followed-up more diligently; and

(h) a consistent process for independently monitoring project performance reporting by all service delivery agencies is developed and implemented.

Responses:

3.178 DPIE and Environment Australia agree with this recommendation. Both agencies note that changes to administrative arrangements under the NHT should assist in addressing this recommendation. Environment Australia has indicated that it is working with DPIE on a consultancy to compare all information management systems used for NHT programs.

1

Management Advisory Board 1997, *Draft Quality Customer Service Tool Kit*, MAB, Canberra, p. 4.

2

ANAO & Management Advisory Board 1997, *Customer-focus in a Public Sector Environment: Better Practice Guide* (draft), AGPS, Canberra, p. 24.

3

This includes approximately five months from the closing of applications to the announcement of successful projects. Figure 4 illustrates the One-Stop-Shop process and the associated timing of events.

4

The regional focus is now strengthened under the NHT through guidelines which encourage larger, integrated projects at a regional level.

5

Joint Committee of Public Accounts, *op. cit.*, p. 27.

6

Council of Australian Government, *op. cit.*, pp. 6-7.

7

Department of the Prime Minister and Cabinet 1995, *Requirements for Departmental Annual Reports*, AGPS, Canberra, p. 3.

8

ibid., p. 8.

9

SCARM & ARMCANZ, *op. cit.*, p. 5.

10

Joint Committee of Public Accounts, *op. cit.*, p. 57.

11

ANAO 1993, *Commentary on Aspects of Commonwealth-State Agreements*, Audit Report No.6 1993-94, AGPS, Canberra, p. 17.

12

ibid., p.21.

13

ANAO 1995, *National Landcare Program et al: Preliminary Study*, Audit Report No.29 1994-95, AGPS, Canberra, p. 45.

14

Grant acquittals are discussed later at para. 4.5 (National component) and 4.6 (Commonwealth-State and Community components).

15

Project performance reports are discussed later at para. 3.158.

16

DPIE's NLP Compendium of Projects is a complete list of all NLP Community Group projects funded since the program inception in 1992-93. It describes each project, its objectives, and proposed project activities. One or more keywords allocated to each project allow easy cross-referencing to projects of a similar nature.

17

Project performance reports are also known as project completion reports, project administration reports and final reports - depending upon the program. For the purposes of consistency in this report, the term project performance reports will be used to describe the reports provided by grant recipients at the completion of projects.

18

The NLP precursor programs are the National Soil Conservation Program and the Federal Water Resources Assistance Program.

19

OBT Coordinators are employed by Greening Australia. STB Coordinators are employed by the States/Territories.

4. Financial Accountability

This chapter examines some of the key financial elements of Commonwealth natural resource management and environmental conservation programs including grant acquittals, incentives and sanctions, cash management, Commonwealth-funded administrative costs, competitive tendering, fraud control, and risks of cost-shifting and double-dipping. Overall, the audit found the acquittal of grants by service delivery agencies and other grant recipients

is unsatisfactory. Improvement can also be made to Commonwealth cash management practices and the application of compliance-based incentives and sanctions. The ANAO found that service delivery has not yet been tested in a competitive environment. Such testing would enable DPIE and Environment Australia to demonstrate that the administration costs of the programs were minimised. The ANAO also considers that risks from cost-shifting and double-dipping need to be closely monitored to ensure program integrity is maintained.

Introduction

4.1 To demonstrate financial accountability, Commonwealth departments must manage, and be seen to manage, funds entrusted to them to achieve program outcomes that represent value-for-money. The importance of financial accountability is shown, in part, by:

- the prominence given to the acquittal of grant funds in the *Natural Resource Management (Financial Assistance) Act 1992* (which provides the basis for conducting activities under the NLP); and
- the key Department of Finance circulars emphasising the importance of good cash management practices.

4.2 This chapter addresses each of the following considerations essential to demonstrating financial accountability:

- grant acquittals;
- incentives and sanctions;
- cash management;
- Commonwealth-funded administrative costs;
- competitive tendering; and
- other financial risks such as fraud, cost-shifting and double-dipping.

Grant acquittals

4.3 The ANAO Better Practice Guide for the Administration of Grants states that:

'reliable, timely and accurate evidence is required to demonstrate that grant funds have been expended in accordance with the terms and conditions of the grant agreement. Administrative procedures to acquit grants on a regular basis are an important management control. The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance ¹.'

4.4 Partnership Agreements, contracts and grant agreements of the Landcare programs examined by the ANAO require all service delivery agencies and grant recipients to annually acquit grant expenditure to the Commonwealth. Although in-principle approval may be given to multi-year projects, each year's grant is required to be acquitted annually. The acquittal requirements, acquittal performance and departmental efforts to follow-up outstanding acquittals are outlined for each of the

landcare programs examined.

NLP National component

4.5 The NLP National component is effected by contracts/agreements between DPIE and grant recipients (mainly government and non-government research bodies). Section 9 of the *Natural Resource Management (Financial Assistance) Act 1992* ('the Act') requires each grant recipient to prepare a grant expenditure statement and a 'responsible person' (as defined in the Act) to certify that in his/her opinion the grant was spent in accordance with the agreement.² To monitor the receipt of project acquittals, DPIE maintains a project status schedule. DPIE Internal Audit recently examined this schedule and found that it was an incomplete record of NLP National component project acquittals and that some of the recorded information was inaccurate. DPIE Internal Audit recommended, and DPIE agreed to, update and regularly maintain the schedule. The ANAO endorses this finding and recommendation of DPIE Internal Audit.

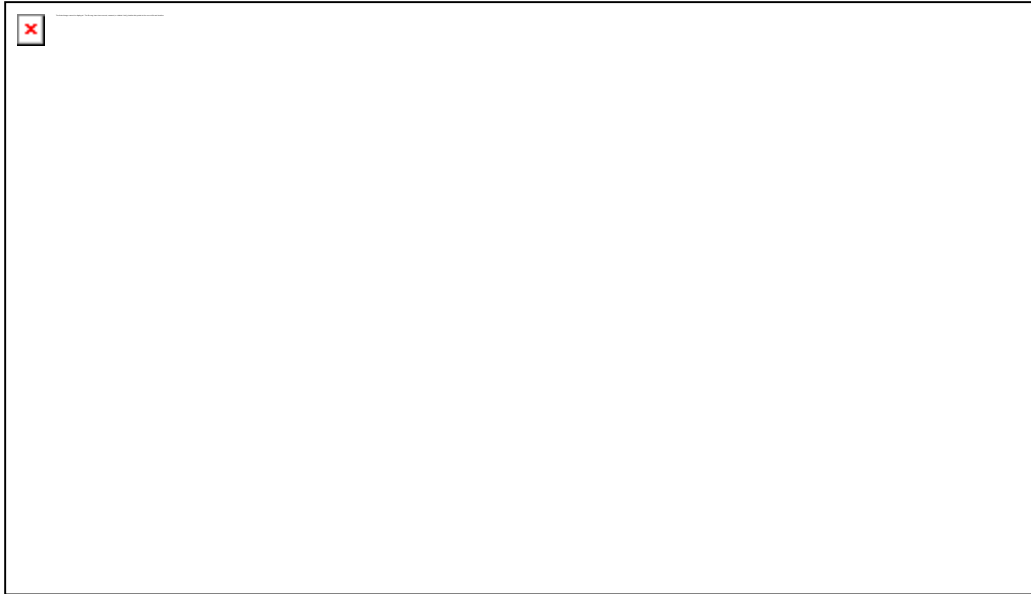
NLP Commonwealth-State and Community component

4.6 The NLP Commonwealth-State and Community component has similar legislative grant acquittal requirements to the NLP National Component (above). To assist in the preparation of grant acquittals, DPIE has developed a proforma grant acquittal form. Current NLP Commonwealth-State and Community component funding arrangements require certified grant acquittals to be submitted by grant recipients within three months of the end of the financial year in which the funding is made.

Outstanding grant acquittals

4.7 The ANAO nevertheless examined schedules maintained by DPIE relating to acquitted and unacquitted grants and found that 2322 grants (62.2% of the grants for the three years from 1993-94) worth over \$151m (66.3% of the value of total grants) have not yet been acquitted.³ Figure 5 illustrates the year-by-year breakdown of grant acquittals received by DPIE.

Figure 5 - Status of NLP grant acquittals as at April 1997¹



1 excludes NLP National component.

2 number of months each current unacquitted grant has remained overdue as at 30 April 1997.

4.8 Figure 6 illustrates the relationships between NLP stakeholders as well as the State-by-State breakdown of funding and grant acquittals received by DPIE. The ANAO found that, on average, current unacquitted grants have remained overdue for over eighteen months for the Commonwealth-State component and nearly seventeen months for the Community component of the NLP. The ANAO also found that:

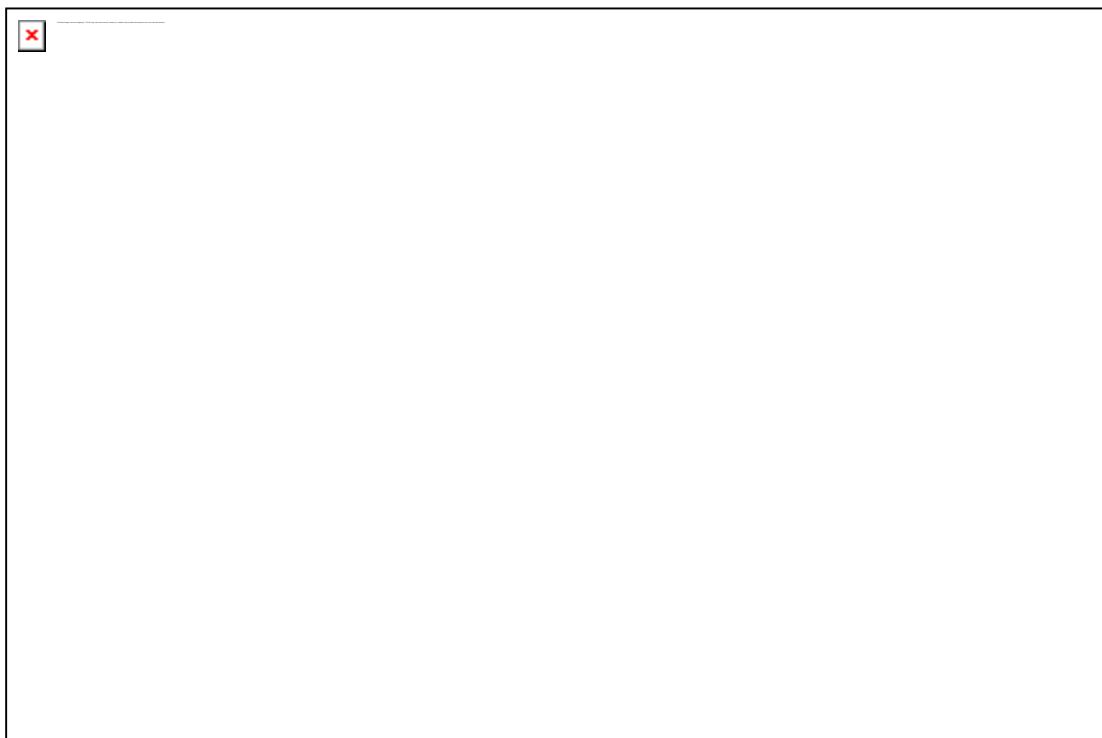
- none of the 45 NLP Murray-Darling Basin Drainage grants (worth over \$11m) paid out in 1993-94 and 1994-95 has been acquitted;
- no NLP Commonwealth-State or Community component project funded in 1993-94, 1994-95 and 1995-96 in the ACT has been acquitted;
- although 62.1% of grants to community landcare groups in SA have been acquitted, only 1.5%, 3.2% and 3.4% of grants to community landcare groups in Vic, WA and Qld, respectively, have been acquitted; and
- although not contrary to the grant conditions, 787 NLP Commonwealth-State and Community projects continued to receive funding in 1994-95, 1995-96 and/or 1996-97 worth \$97m while prior year(s) grant(s) remain unacquitted. This included 49 projects funded in 1996-97 where grants allocated in each of the three previous years had not been acquitted.

4.9 The ANAO examination confirmed an earlier review of the Management of Landcare Payments by DPIE Internal Audit which also found that the deadline for submission of certified grant acquittals was not complied with for many projects resulting in DPIE making the following year's payment in part or in full before the previous year's funding was acquitted. DPIE indicated that Partnership Agreements

will be amended to allow for extending the acquittal deadline from three months to six months and suspending further funding until outstanding grant acquittals have been received. The ANAO notes that acquittal deadline extension in itself will make little or no difference to the receipt of grant acquittals unless there is a willingness by the States/Territories to comply, or a willingness by DPIE to take action in the event of non-compliance. DPIE Internal Audit recommended, and DPIE accepted, that suspension of funding be closely adhered to to develop stronger compliance with financial reporting on projects. The ANAO endorses this finding and recommendation of DPIE Internal Audit.

Follow-up of outstanding grant acquittals

4.10 DPIE has devoted some effort to following up outstanding NLP Commonwealth-State and Community grant acquittals, particularly since late 1995. DPIE wrote to Northern Territory and New South Wales in March 1994 and to SA, Qld, Vic and NSW in December 1995 requesting that outstanding grant acquittals be provided to DPIE. DPIE records indicate that informal efforts to follow-up outstanding grant acquittals have continued during 1996. However, as illustrated above, a significant number of Commonwealth-State and Community grants still remains unacquitted.



Other ANAO findings

4.11 Upon examining NLP Commonwealth-State and Community Component grant acquittals, the ANAO found that:

- the majority of the grant acquittals prepared by the States/Territories for the 1993-94, 1994-95 and 1995-96 financial years have technically not met legislative requirements. Legal advice obtained by the ANAO indicates that the acquittal certification

commonly used 'I hereby certify that this statement of expenditure is correct' does not technically satisfy the grant acquittal requirements of the *Natural Resource Management (Financial Assistance) Act 1992*. The importance of appropriate grant acquittals has been stressed in the ANAO's Better Practice Guide for the Administration of Grants which notes that '*reliable, timely and adequate evidence is required to demonstrate that grant funds have been expended in accordance with the terms and conditions of the funding agreement*'.⁴ The ANAO considers that in the future, the wording of each grant certification should be changed to reflect that it is the opinion of the certifying officer that the grant was spent in accordance with the relevant financial assistance agreement. DPIE indicated that it will revise its proforma acquittal form to reflect the legal advice obtained by the ANAO;

- acquittal forms completed by the relevant State/Territory departments relating to community grants specified the State/Territory department as the grant recipient instead of the Community group that ultimately received the NLP funding. The ANAO considers that this practice and the vague and ambiguous wording of the current acquittal certification (refer above) could lead to some confusion as to what is being acquitted. The ANAO has suggested a form of words to DPIE to address this risk;
- annual acquittal statements provided by the Tasmanian Department of Primary Industries and Fisheries do not adequately acquit the expenditure of NLP funds. (Although, DPIE has correctly recorded these grants as unacquitted, little has been done to rectify the situation);
- DPIE incorrectly acquitted 1993-94 grants to and through the Conservation Commission of the Northern Territory even though grant acquittal statements provided were not properly certified (ie. they were not signed). (DPIE indicated that these statements were accepted following discussions with the Conservation Commission as the acquittals were forwarded under a letter signed by the delegate of the appropriate agency);
- confusion over the meaning of 'outstanding commitments' on the proforma acquittal forms led the Queensland Department of Primary Industries to overstate its outstanding commitments and understate its uncommitted funds. This situation could lead to DPIE providing funds to the Queensland Department of Primary Industries in advance of need (which in turn increases the Commonwealth's cost of borrowings - discussed further in the 'Cash Management' section of this report). (DPIE indicated that it would develop a definition of outstanding commitments and ask States/Territories to apply it consistently).

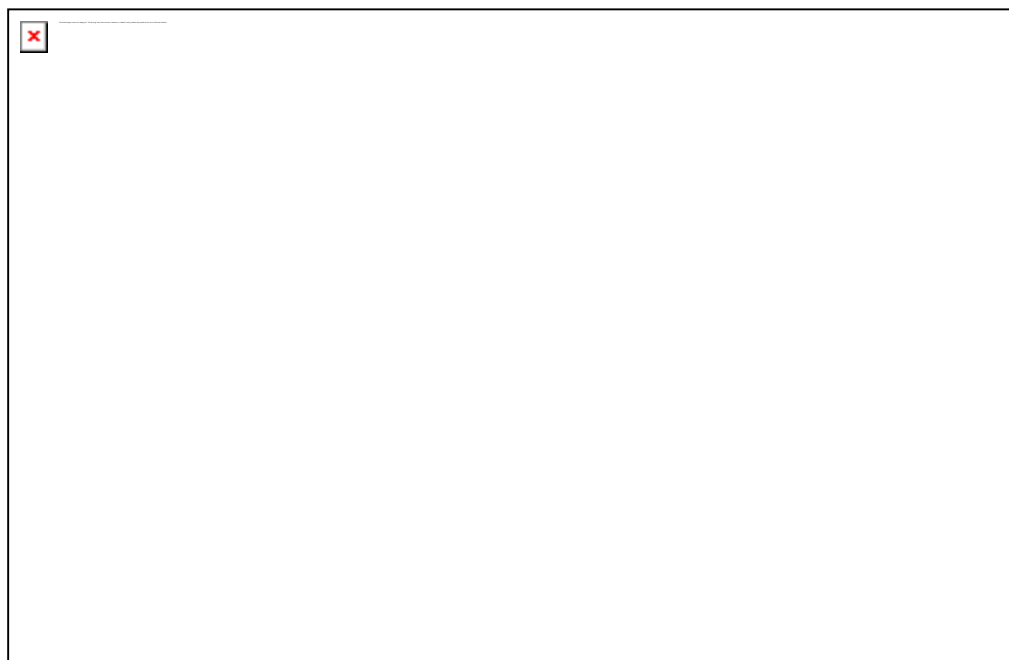
OBT and STB Community Grants

4.12 The Conditions of Award for Project Grants under the OBT and STB Community Grants programs requires each grant recipient to supply to Environment Australia a statement of expenditure, certified by a person authorised by the grant recipient, within 60 days of the completion of the project.

4.13 The ANAO examined schedules maintained by Environment Australia relating

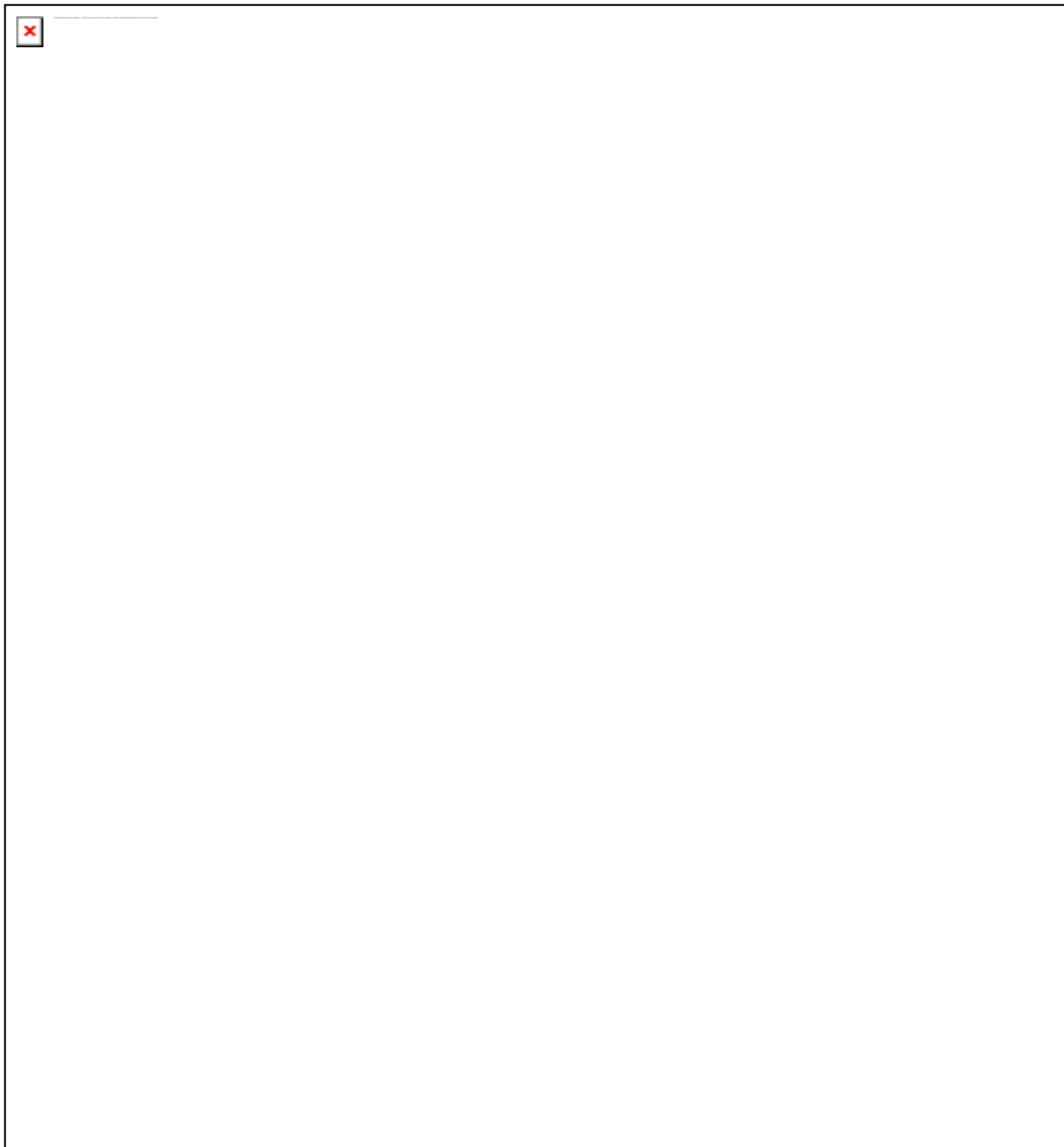
to acquitted and unacquitted grants and found that 1016 grants (74.2% of all 1993-94, 1994-95 and 1995-96 grants) worth over \$5.7m (75.4% of the total value of grants) have not yet been acquitted. Figure 7 illustrates the year-by-year breakdown of grant acquittals received by Environment Australia.

Figure 7 - Status of OBT and STB Community Grant acquittals as at April 1997



1 number of months each current unacquitted grant has remained overdue as at 30 April 1997.

4.14 Figure 8 illustrates the relationship between OBT and STB Community Grants stakeholders, the distribution of funding to each State and Territory, and grant acquittals received by Environment Australia. The ANAO found that, on average, unacquitted OBT and STB Community Grants have remained unacquitted for about 13.5 months.



4.15 The ANAO also found many instances where OBT and STB Community Grants recipients continue to receive funding without acquitting prior grants.

4.16 Commonwealth-funded OBT and STB Coordinators in each State/Territory are responsible, in the first instance, for ensuring that grant recipients submit grant acquittals. Environment Australia intends to formally follow-up outstanding 1993-94 grant acquittals during 1996-97 - over two years since the acquittals were due. The ANAO considers that such lengthy delays in following up grant acquittals inhibits the likelihood of obtaining them.

Waterwatch program

4.17 The Waterwatch program is structured in a similar way as the NLP Commonwealth-State and Community components (where Environment Australia has contracts with State/Territory departments and State/Territory departments have contracts/agreements with waterwatch/catchment management groups). Waterwatch program funding must be acquitted annually by the service delivery

agencies (that is, the relevant State/Territory departments). However, it was not until January-February 1997 that the contracts between Environment Australia and the State/Territory departments for the delivery of the Waterwatch program specified the format of expenditure acquittals. This meant that in prior years State/Territory Departments were able to meet their contractual requirements by acquitting the year's funding in a lump sum rather than acquitting each individual project funded. The absence of a project-by-project grant acquittal has meant that the Commonwealth did not formally ascertain that States/Territories allocated Waterwatch program funds according to the projects outlined in the contracts between Environment Australia and State/Territory departments.

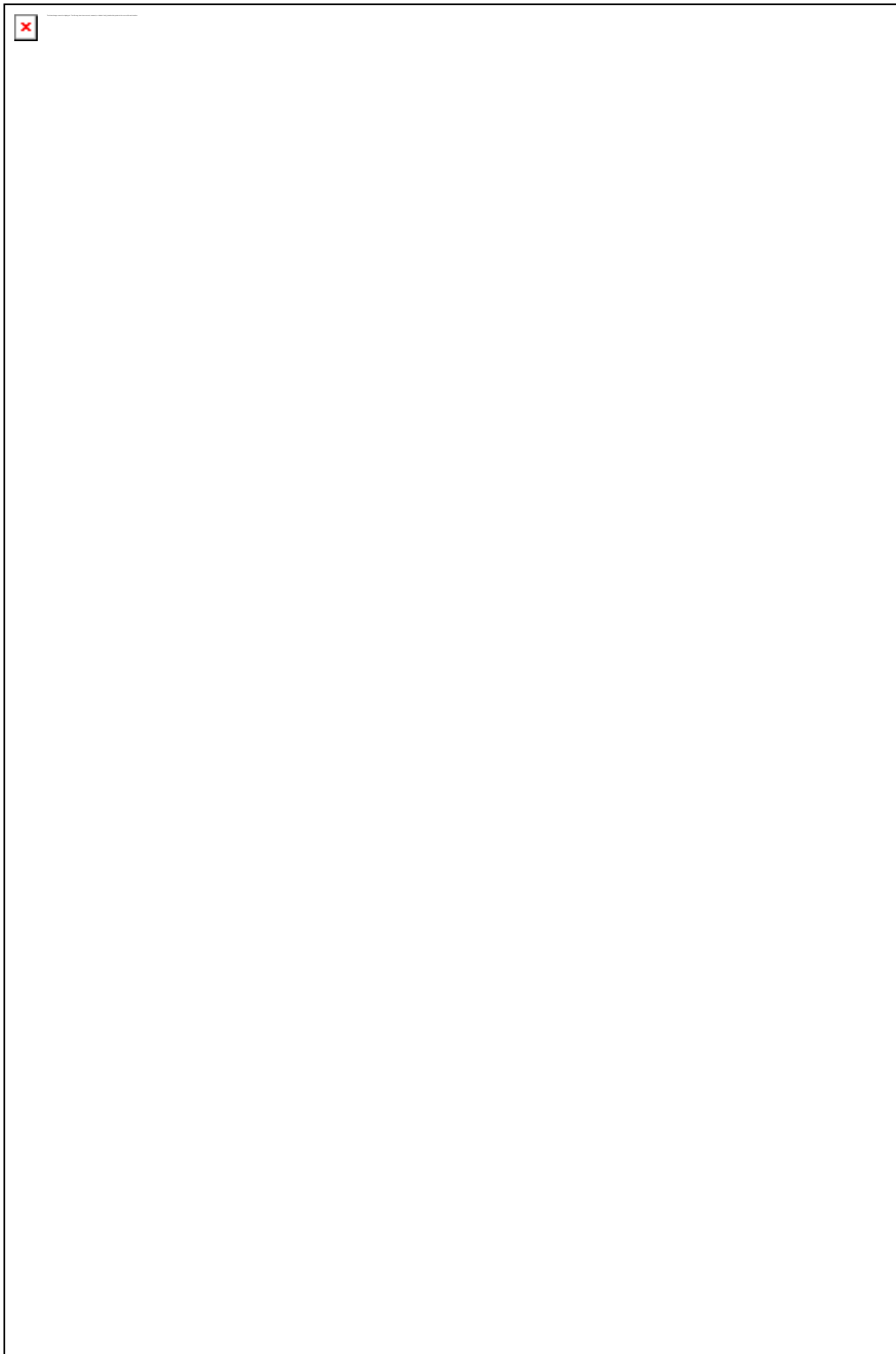
4.18 In addition, Environment Australia does not maintain collated information as to which Waterwatch grant acquittals have been received or are outstanding. As a result, Environment Australia is not in a position to:

- determine which grant acquittals have been received or remain outstanding; and
- follow-up outstanding grant acquittals.

4.19 The ANAO considers that Environment Australia should maintain records that indicate which grant acquittals have been received or are overdue.

OBT Service Delivery

4.20 Greening Australia consists of nine separate legal entities - Greening Australia Limited (GAL - the 'peak' body) and one for each of the eight State/Territory Greening Australia bodies. Environment Australia has contracted GAL to undertake the OBT Service Delivery program and GAL in turn, has sub-contracted most of the work to the State/Territory Greening Australia bodies. This relationship is illustrated in Figure 9.



4.21 Environment Australia uses two mechanisms to monitor the acquittal of OBT Service Delivery expenditure by Greening Australia - Greening Australia's financial statements and annual acquittal statements.

Financial statements of Greening Australia bodies

4.22 The OBT Service Delivery contract between Environment Australia and Greening Australia requires all State/Territory Greening Australia bodies and Greening Australia Limited to submit to Environment Australia audited financial statements on their operations. An examination by the ANAO of the 1995-96 financial statements of Greening Australia Limited and the eight State/Territory Greening Australia bodies, internal memoranda of Environment Australia and correspondence between Environment Australia and Greening Australia revealed:

- that Environment Australia and Greening Australia place different interpretations on the OBT Service Delivery contract acquittal requirements relating to disclosures in Greening Australia's financial statements and associated audit opinions of Commonwealth OBT funding. Greening Australia believe that all Greening Australia bodies fully comply with the OBT contract whereas internal Environment Australia memoranda complain about inadequate disclosures by Greening Australia. The ANAO considers that the wording of the OBT contract acquittal requirements is ambiguous and should be reworded to better reflect Environment Australia's expectations; and
- one instance where Environment Australia accepted the financial statements and audit opinion provided for one Greening Australia body although Environment Australia's copy of the Statement by the Chairman and Treasurer was not signed. When asked, Greening Australia provided the ANAO with the signed Statement by the Chairman and Treasurer. The ANAO considers that Environment Australia should be more diligent when examining the financial statements of Greening Australia.

Acquittal statements

4.23 As part of the OBT Service Delivery contract, Greening Australia produces an annual program which outlines Greening Australia's activities for the coming year. Included as part of the annual program is a description and budget for each OBT-funded project. At the end of each year, Greening Australia produces acquittal statements which match actual expenditure to budgeted expenditure for each OBT-funded project. The ANAO found that the 1995-96 acquittal statements adequately acquitted each OBT-funded project (although it should be noted that acquittal statements are not independently audited). The importance of audited financial statements, as required under the existing OBT Service Delivery contract, remains paramount.

River Murray Corridor of Green and National Corridors of Green programs

4.24 Figure 10 illustrates the structure of the NCOG program delivery arrangements. The contracts between Environment Australia and Greening Australia for the delivery of the River Murray Corridors of Green program and Phase I of the National Corridors of Green program (both now completed) required Greening Australia to prepare annual statements of funds spent under the contracts. However, there was no requirement to have these statements independently audited. Phase II of the NCOG program signed in March 1997, after the audit field work was completed, now contains similar audit provisions to those contained in the OBT Service Delivery

contract.

Conclusion

4.25 Annual grant acquittals provide the Commonwealth with a measure of assurance that taxpayers' funds allocated to grant recipients have been spent for their intended purposes. Grant acquittals are an integral part of applying good risk management principles. However, in general, compliance by funded bodies to acquit grants is unsatisfactory. The ANAO found that two of the six programs examined did not maintain sufficiently reliable information to determine which grants were acquitted. In relation to the NLP administered by DPIE, the ANAO found that the majority of grant acquittals provided by States/Territories had not technically met legislative requirements. 2322 NLP grants (62.2%) valued at \$151.3 million (66.3% of the total value of grants) had not been acquitted. This includes 787 projects (worth \$97m) that continued to receive funding over three financial years although prior year(s) grant(s) remained unacquitted.⁵ With respect to programs administered by Environment Australia, the ANAO found that:

- 1016 grants (74.2%) valued at \$5.7 million (75.4% of the total value of grants) under the OBT and STB community grants programs had not been acquitted; and
- Environment Australia and Greening Australia place different interpretations on the OBT Service Delivery contract acquittal requirements.



4.26 Consequently, both DPIE and Environment Australia are not well positioned to determine whether Commonwealth funding has been spent for its intended purposes. The ANAO considers that DPIE and Environment Australia should be more diligent in following-up overdue grant acquittals. The implementation of incentives and sanctions by DPIE and Environment Australia, such as those outlined

in this report, would make compliance with grant acquittal requirements more likely. The ANAO notes that other departments with grant programs, such as the Department for Employment, Education, Training and Youth Affairs, require their grant recipients to acquit grant payments before subsequent payments will be made and submit audited financial statements or a final statement of expenditure.⁶

Recommendation No.8

4.27 The ANAO *recommends* that DPIE and Environment Australia:

- (a) maintain appropriate records to monitoring the receipt of grant acquittals;
- (b) ensure that all grant acquittals provided by service delivery agencies and other grant recipients meet legislative and contractual requirements and appropriate accountability and probity provisions;
- (c) institute a more rigorous approach to follow-up overdue grant acquittals;
- (d) in conjunction with the States/Territories, develop a strategy for delegating the acquittal of landcare grants to responsible State/Territory officials; and
- (e) ensure that the statement of funds spent under all programs are independently audited.

Responses:

4.28 DPIE and Environment Australia agree with this recommendation. DPIE indicated that they it is currently consolidating NLP acquittals into an overall listing. DPIE also indicated that it would pursue options such as withholding payments until the receipt of outstanding grant acquittal forms. Environment Australia indicated that it proposes to improve its grant acquittal processes and implement sanctions to ensure compliance with grant acquittal requirements.

Incentives and sanctions

4.29 The ANAO considers that incentives and sanctions, used appropriately, can encourage better and more timely performance from service delivery agencies and other grant recipients. The JCPA has expressed its general reluctance

*'to encourage the use of sanctions, particularly when performance targets are not met. The use of such sanctions in such situations is a blunt management tool for achieving objectives and it places the Commonwealth in the role of enforcer, which is likely to give rise to hostility between the parties involved.'*⁷

4.30 The ANAO notes, however, that in the implementation of the Building Better Cities program, the Commonwealth refused further payments to three service delivery agencies that had not reached the agreed milestone by the due date. Subsequent performance was noted to improve as a consequence⁸.

4.31 Both DPIE and Environment Australia could improve the design of their

programs with a more focussed approach to applying incentives and sanctions. In both agencies there is a strong focus on 'getting the money out' before the end of the financial year and available sanctions for non-conformance with program terms and conditions are rarely applied. In quite a few cases, both agencies have continued funding States/Territories and non-government organisations despite their non-performance in fulfilling contractual obligations and partnership agreement requirements. Improved compliance by service delivery agencies will increase public accountability and give earlier warnings of projects and strategies not meeting budgeted performance targets and milestones.

Incentives and sanctions for service delivery agencies

4.32 The ANAO considers that a better approach would be to link progress payments to actual performance against milestones in the Partnership Agreements and other service delivery contracts. Restructuring the Partnership Agreements to include agreed financial incentives/ graduated sanctions based on performance against milestones would give the Commonwealth greater capacity to influence both the timing and quality of performance. The JCPA has noted that graduated sanctions (such as more frequent reporting on performance, enhanced input controls and greater Commonwealth oversight) should be included in agreements to cover gross abuses.

4.33 Withholding future funding until the previous year's funds have been appropriately acquitted and other contract deliverables have been supplied is another valid sanction that could be introduced to increase the likelihood of compliance. Had such a sanction been available and applied by DPIE, it is highly likely that more grant acquittals would have been received by DPIE. The ANAO notes that DPIE funded 787 NLP Commonwealth-State and Community projects with a value of \$97m although prior year(s) grant(s) had not been acquitted (refer to para. 4.8).

4.34 Incentives such as the carry forward of funds to the following year or accelerated implementation of future activities could also be used to encourage more timely project performance.

Incentives and sanctions for other grant recipients

4.35 The ANAO recognises the difficulty faced by departments when deciding whether to apply sanctions to community landcare groups - especially as most community group members volunteer their time and equipment to implement projects. However, the Australian public has a right to expect that Commonwealth funds will be spent in accordance with the terms and conditions under which it was paid. Therefore the ANAO considers that the incentives and sanctions applied to other grant recipients should be compliance-based (that is, additional or future NHT funding being dependent on the grant recipient's compliance with grant agreements/contracts). Table 12 summarises the incentives and sanctions available to the Commonwealth.

Conclusion

4.36 The ANAO found that DPIE and Environment Australia rarely use or apply available incentives or sanctions to encourage compliance with program terms and conditions. This could well have contributed to DPIE and Environment Australia receiving insufficient project performance reports and grant acquittals. Consequently, this has not assisted DPIE and Environment Australia to determine whether, as a whole, Commonwealth-funded projects are contributing effectively to program objectives and whether grant funds have been spent for their intended purposes.

4.37 Although care needs to be taken in their use, the ANAO suggests that the introduction of, or the application of existing incentives and graduated sanctions within agreements could assist DPIE and Environment Australia to achieve more timely program outputs such as grant acquittals and project performance reports.

Table 12 - Summary of possible incentives and sanctions

<i>For service delivery agencies:</i>
Contractual payments linked to the achievement of program milestones or targets
Allow a carry forward of funds without penalty to the following year or accelerated implementation of future activities as appropriate
Withhold funds until previous year's grants/contract have been acquitted and other program deliverables (such as an annual report) have been supplied
Previous performance to be considered in letting or renewing contracts
<i>For other grant recipients:</i>
Withdraw funds and demand the return of funds where they have not been used for project purposes
For multi-year grants, withhold funds until previous year's grants have been acquitted
Withhold a percentage (say 10-15%) of grant funds at the start of the grant (particularly for non-community grants) until funds have been adequately acquitted (at least annually) and, where applicable, project performance reports supplied
Make organisations who have not acquitted previous Landcare or NHT grants ineligible for further NHT grants
Public recognition of achievements

4.38 With respect to service delivery agencies, linking progressive funding payments to actual performance against milestones in the contracts would give the Commonwealth greater capacity to influence both the timing and quality of performance. In some instances this may involve delaying future payments until the relevant information is provided.

4.39 Although the ANAO recognises the difficulty faced by departments in deciding whether to apply sanctions to community landcare groups, the ANAO suggests that compliance-based incentives and the use of appropriate sanctions should be considered when grant terms are not met. The draft NHT Partnership Agreements

are an improvement on the past NLP Partnership Agreements. However, the ANAO notes that experiences from other programs (such as the Building Better Cities program) indicate that the range of incentives and sanctions currently included could be broadened to further improve performance.

Recommendation No.9

4.40 The ANAO *recommends* that DPIE and Environment Australia consider introducing incentives and graduated sanctions into agreements/contracts for the Natural Heritage Trust initiatives that:

- (a) link payments to the achievement of program milestones/targets;
- (b) withhold further Natural Heritage Trust funding until current or previous grant acquittal and/or project performance reporting requirements are met; and
- (c) allow a carry forward of funds to the following year or accelerated implementation of future activities as appropriate.

Responses:

4.41 DPIE and Environment Australia agree with this recommendation. DPIE indicated that it already complies to some extent with elements (a) and (c). Environment Australia indicated that it is intended that all their programs under the NHT will link payments to the achievement of milestones or targets and these will be specifically referred to in contracts with provider agencies.

Cash management

4.42 In 1994-95, the Commonwealth's cash management activities were the subject of an ANAO audit.⁹ Department of Finance Circular 1994/4 endorsed a number of ANAO's recommendations in relation to efficient cash management. Two of these are relevant to the landcare programs examined by the ANAO. These are:

'(b) ensure payments are made only when due unless a net advantage to the Commonwealth can be established; and

(c) endeavour to match receipts and payments flows to minimise the need for short term borrowing.'

4.43 As a general principle, cash management approaches should only be implemented where there is a net benefit from the funds saved compared to administration cost increases.

Current payment methods

4.44 The timing of NLP funds, administered by DPIE, paid to service delivery agencies and grant recipients varies between program components. Funding for community groups under the NLP Community component is first paid to the States/Territories 100 per cent in advance. The States/Territories in turn immediately

pass on all of the funds to community groups in advance of expenditure by the groups. The funding for the NLP Commonwealth-State Component is paid to the States/Territories (approximately) quarterly in advance. NLP National component funding is paid to grant recipients partially in advance and the remainder on the achievement of performance milestones (such as the submission of a satisfactory final report).

4.45 The OBT and STB Community Grants programs administered by Environment Australia are also paid to community groups 100 per cent in advance but are paid directly by Environment Australia rather than through the States/Territories. Under the OBT Service Delivery and NCOG programs, Greening Australia receives about 90-95 per cent of funds in advance and receives the remainder on the submission of satisfactory progress and project performance reports. Table 13 summarises the current payments methods of the DPIE and Environment Australia programs examined by the ANAO.

Table 13 - Current payment methods for programs examined

Program/ Component	Payment method				Comments
	100 per cent in advance	Quarterly in advance	Achievement of mile-stones	Other	
NLP National			X		Milestones usually include the submission of the final report
NLP Commonwealth-State		X			
NLP Community (State managed)		X			
NLP Community (Community Groups)	X				Funds first paid to States. States immediately forward funds to community groups
OBT & STB Community Grants	X				Funds paid directly to community groups
OBT Service Delivery				X	Payments in 1996-97: \$4 100 000 - Jul-Dec 96 \$75 000 - interim contract final report due 31/1/97 \$100 000 - progress report due 15/5/97 \$25 000 - final report due 31/10/97
Waterwatch	X				Funds first paid to States. States immediately forward funds to community groups
RMCOG/NCOG				X	Payments for NCOG Phase I -Year 1

					\$700 000 - late Mar 96 \$23 722 - final report due 31/3/98
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4.46 The current approach of providing a 100 per cent advance of NLP funds to State/Territory governments for distribution to community landcare groups has significant cash management ramifications for the Commonwealth, as illustrated in Case Study 7.

4.47 There are a number of options for improving the cash management of the landcare programs which could result in savings to the Commonwealth. The potential cash management savings outlined below do not take account of associated increases in administration costs (as these are very difficult to calculate with any accuracy). However, given the size of potential savings the ANAO considers that the potential cash management savings are likely to outweigh administration costs increases.

Quarterly payment of grants

4.48 One option is to move, where possible, from in-advance annual program payments to quarterly payments in advance. This provides significant potential cash management savings for the Commonwealth. Most potential savings will come from the National Vegetation Initiative to be administered by Environment Australia. This program includes a large increase in funding for vegetation issues and provides the scope for funding larger projects. Potential savings under the other programs are smaller because payments to (not through) the States/Territories are already paid quarterly. The ANAO estimates that \$9.9m could be saved over the life of the NHT. ¹⁰ This represents 1.4 per cent of the relevant components of the NHT. Table 14 illustrates the potential savings for each relevant program under the NHT.

**Table 14 - Potential interest savings from quarterly payment
of grant funds**

Natural Heritage Trust program		Estimated
Name	Funding (\$m) over six financial years	potential savings
Landcare	264.0	989 000
Advanced property management planning	15.0	56 000
National Rivercare Initiative	97.0	363 000
National Vegetation Initiative	328.6	8 488 000
Total	\$704.6m	\$9 896 000

Case Study 7: NLP payments made in advance of need - additional costs of Commonwealth borrowing

Grant acquittal forms for the NLP Commonwealth-State and Community grants require grant recipients to identify any NLP funds unspent at the end of the financial year (referred to as 'carryovers'). This information gives DPIE the opportunity to monitor the matching of NLP funds to project expenditure by grant recipients.

An ANAO examination of the NLP grant acquittal statements has revealed that a significant portion of NLP Commonwealth-State and Community grants remain unspent at the end of each financial year and are then 'carried over' into the next year. On one project the ANAO found that at least \$150 000 was carried over for more than 12 months. Carryovers indicate that portions of payments have been made by DPIE in advance of grant recipient's needs. This increases the amount borrowed by the Commonwealth at an earlier date than necessary (and allows grant recipients to earn interest from unspent Commonwealth funds).¹ DPIE, in managing NLP carryovers, reduces the following year's grant (where applicable) by the estimated carryover identified by the grant recipients before year end. However, this approach does not take account of the interest expenditure incurred by increased Commonwealth borrowings.

The ANAO estimates that, on average, nearly 23% of NLP Commonwealth-State and Community Grant funds are carried over from one year to the next and as a result the Commonwealth incurred over \$600 000 in additional Commonwealth borrowings in 1994-95 alone.² If the rates of carryover continue for the life of the relevant components of the NHT administered by DPIE, the ANAO estimates that grant recipients will have about \$12.9m in unspent funds at the end of the program, representing about 3.5 per cent of the relevant components of the NHT.³ In addition, the Commonwealth would have incurred nearly \$3.3m in interest (in real terms) from the additional cost of borrowings.⁴ The following table illustrates the breakdown of unspent funds and additional cost of Commonwealth borrowings between States/Territories and other grant recipients.

Table - Estimated additional cost of Commonwealth borrowing and unspent program funds

	Estimated carry over rate p.a.	borrowings	of the NHT
Component			
Commonwealth- State and State- managed Community	23.5%	\$2.3m	\$11.3m
Community (Community groups)	19.0%	\$1.0m	\$1.6m
TOTAL	22.8% ⁵	\$3.3m	\$12.9m

ANAO comment

This case study shows that generally NLP payments are made in advance of need and a significant proportion carried over from one year to the next. If this trend continues under the NHT, as well as having cash management ramifications, the program's ability to deliver timely outcomes may be influenced. The ANAO considers that DPIE should regularly monitor the extent to which NHT funds are carried over from one year to the next. DPIE considers that monitoring the cash flows of NLP projects is resource intensive, both for DPIE and for the State/Territory NLP administrators.

Current landcare programs administered by Environment Australia are less likely to have carryovers to the extent of the NLP because of the lesser funds in total and smaller, one-year projects. However, given the expansion of the vegetation programs in Environment Australia (\$328.6m for the National Vegetation Initiative over six financial years) and the likelihood of larger projects with longer durations, the ANAO considers that Environment Australia should begin to monitor the carryover of grant funds.

1 Projects can be delayed for many reasons including seasonal factors (eg. for tree plantings) and the availability of other resources (other grants for the projects from other sources, paid and unpaid labour).

2 Based on an excess of the interest rate over the inflation rate of four per cent per annum compounded quarterly.

3 Relevant components of NHT includes Landcare, Advanced property management planning and the National Rivercare Initiative.

4 This calculation assumes that funds are allocated among the various components according to 1995-96 proportions AND this cash management method is applied in isolation from other cash management methods.

5 Total estimated carryover rate is a composite rate that takes into account the proportion of funding allocated to both the Commonwealth-State component and the Community component.

4.49 The ANAO considers that service delivery agencies (for example, States/Territories and non-government organisations) are well placed to manage the timing of payments to grant recipients. Service delivery agencies, when seeking the next quarter's funding from the Commonwealth, could then provide a financial report indicating how the previous quarter's funds were distributed to grant recipients. The quarterly payment of grants by the Commonwealth to service delivery agencies has the added benefit of allowing the Commonwealth to apply graduated sanctions to those projects of service delivery agencies or other grant recipients that do not meet grant acquittal or project performance reporting requirements.

4.50 The ANAO recognises that the voluntary nature of community landcare groups and that the Minister for Primary Industries and Energy has decided to provide community landcare groups with a 100 per cent funding advance. The ANAO considers that the ability of community landcare groups to undertake projects would not be unnecessarily restricted if State/Territory project managers were given the

responsibility and discretion to distribute grant funds according to the individual needs of each community landcare project.

Timing of payments to the States/Territories

4.51 The Partnership Agreements give some discretion to DPIE concerning the timing and size of payments to and through the States and Territories. ¹¹ Finance Circular 1994/4 states that it would be beneficial for Departments to arrange for large (eg. multi-million dollar) contractual payments to fall due on peak taxation receipts for the Commonwealth (which is the 7th, 8th, 9th, 21st and 22nd of each month, or the next working day if any of these dates falls on a weekend). An examination of the payment dates of 1994-95 and 1995-96 NLP Grants revealed that only eight of the 51 payments greater than \$1m were paid to the States/Territories on the dates of peak taxation receipts. The ANAO considers that DPIE should, where it has discretion to do so, time future large payments to the States/Territories under the NHT to meet peak taxation receipts.

4.52 DPIE indicated that the question of timing of payments to align with peak taxation receipts will be considered.

Conclusion

4.53 The ANAO considers that there is scope for improving cash management practices in both DPIE and Environment Australia. While recognising that there are a range of available options, the ANAO has calculated, for example, that the Commonwealth could save \$9.9 million over the life of the NHT by moving to quarterly payments of grants to service delivery agencies. Such a move can also provide a financial incentive for grant recipients to better comply with grant acquittal requirements.

Recommendation No.10

4.54 The ANAO *recommends* that DPIE and Environment Australia, in implementing cash management procedures under the Natural Heritage Trust:

- (a) maintain appropriate records to allow unspent grant funds at year end to be monitored;
- (b) consider moving towards quarterly payment of grants funds to service delivery agencies;
- (c) give service delivery agencies responsibility for:
 - determining the timing of payment to grant recipients, consistent with the grant recipient's funding needs; and
 - providing a financial report to the Commonwealth each quarter indicating how the previous quarter's funds were distributed by service delivery agencies to grant recipients; and
- (d) where it has the discretion to do so, time large financial assistance payments to

the States and Territories and other service delivery agencies to coincide with peak taxation receipts.

Responses:

4.55 DPIE and Environment Australia agree with this recommendation. DPIE has indicated that element (b) is current practice under the NLP. DPIE has reservations about element (d) as the Department of Finance guidelines on this matter are only recommendations and the Department of Finance leaves cash management decisions to the program managers. Actual timing of quarterly payments is determined largely by staff resource availability within the Department. While agreeing with this recommendation, Environment Australia considers on element (b) that there may be instances (such as in relation to small grants) where this could be difficult to apply in practice. Environment Australia indicated that element (c) is a matter for negotiation between the Commonwealth and service delivery agencies.

4.56 The ANAO notes that while payments made under the NLP to the States/Territories are made quarterly, payments through the States/Territories are made 100 per cent in advance.

1

ANAO 1997, *Better Practice Guide for the Administration of Grants*, AGPS, Canberra, p. 28.

2

Or a 'responsible person' has received a statement from a qualified accountant stating that the qualified accountant is of the opinion that the amount was spent in accordance with the agreement.

3

The ANAO has issued an unqualified audit opinion of DPIE's and DEST's financial statements for these three years. The amount of unacquitted grants identified in this report is not material for financial statement reporting purposes.

4

ANAO 1997, *op.cit.*, p. 42

5

Although the provision of funding in the absence of grant acquittals is not contrary to current grant conditions, the ANAO considers that its continuation over multiple years does not represent good management practice.

6

Department of Employment, Education, Training and Youth Affairs 1994, *Secretary's Management and Finance Instruction No. 40 Financial Management of Program Grants and Program Service Payments*, Attachment C - Acquittal Requirements, unpublished, pp. 13-14.

7

Joint Committee of Public Accounts, *op. cit.*, p. 61.

8

Department of Finance 1994, *Lessons to be learned from Commonwealth/State funding model used in the Better Cities Program*, unpublished.

9

ANAO 1994, *Cash Management in Commonwealth Government Departments*, Audit Report No.10 1994-95, AGPS, Canberra.

10

In terms of savings on the additional cost of borrowings to the Commonwealth.

11

The size of each grant is approved by the Minister for Primary Industries and Energy but DPIE has some discretion as to the timing and the number of payments it makes to the States/Territories.

Commonwealth-funded administrative costs

4.57 The Council of Australian Governments stated that

'in considering shared responsibility programs which include specific project approval by the Commonwealth, options should reflect the principle that Commonwealth involvement in operational management should be reduced to the greatest degree possible consistent with ensuring that agreed national objectives are met'. ¹

4.58 The ANAO examined DPIE and Environment Australia resources allocated to administering each landcare program and the administration costs of service delivery agencies funded by DPIE and Environment Australia to compare the administrative costs for each program. For the purposes of this report the ANAO has defined activities that fall under the following five key activity areas as 'administrative' activities:

- Preliminary - processes necessary before funding can be allocated (for example, producing guidelines, determining national priorities);
- Project application and assessment/Contract negotiation and approval - processes which determine how much, to whom and for what funds are to be allocated (for example, the One-Stop-Shop process);
- Monitoring, review and evaluation - processes used to monitor the performance of projects/contracts and evaluate the effectiveness of the program/component;
- Strategic planning - for the next and future years; and
- Program support - activities necessary to ensure the smooth running of the program/component (for example, payment of grants, responding to ministerial correspondence, briefings and program coordination activities). ²

4.59 The ANAO found that the total annual administrative costs incurred or funded by DPIE and Environment Australia are \$5.1m (or on average about 5.2 per cent of landcare program costs). Service delivery agency administrative costs funded by the Commonwealth are also significant. Although these costs do not appear to be excessive on average, there is a wide variation between programs (see Case Study 8). DPIE and Environment Australia have not benchmarked the relevant administrative costs and so do not have a sound basis for determining whether in fact they are receiving value-for-money from the administration provided by service delivery agencies. Greening Australia indicated that it would welcome the opportunity to work with Environment Australia on the administration cost issue.

4.60 Some \$2.7m is spent annually by DPIE and Environment Australia funding service delivery agency administrative costs of the various natural resource management and environment programs. As program delivery mechanisms vary widely, ³ DPIE and Environment Australia have an opportunity to compare Commonwealth-funded service delivery agency administration costs across the various programs to determine which programs' delivery mechanisms provide the Commonwealth with the best value-for-money. However, DPIE and Environment Australia have not attempted to do this. The ANAO considers that DPIE and Environment Australia should benchmark the service delivery agency administration activities and costs between programs so as to determine whether DPIE and Environment Australia are receiving value-for-money from each. Factors that should be considered include the scope of administrative functions and deliverables, administrative functions provided free-of-charge (if any), timeliness of deliverables, and client satisfaction.

4.61 Greening Australia has questioned the wide variations identified by the ANAO in administration costs for each State/Territory Greening Australia body funded under the OBT Service Delivery program. ⁴ Greening Australia's own assessments of the administration costs for State/Territory bodies vary from fourteen to sixteen per cent. Greening Australia considers this indicates a flaw in the methodology for determining 'administration' costs and/or inconsistencies in the ways State/Territory Greening Australia bodies categorise their projects. The ANAO considers that the

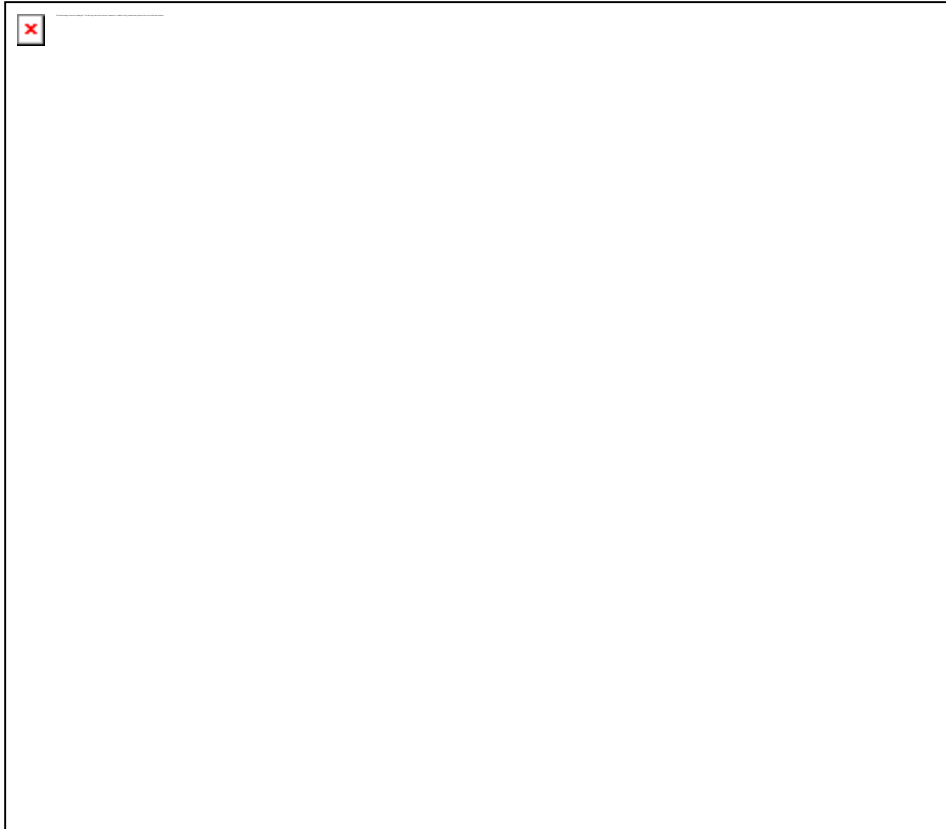
five key activity areas of administration (outlined above in para. 4.58) accurately define program administration costs across all the landcare programs examined. Incorrect project categorisation by Greening Australia is a possible explanation. The ANAO's administrative cost calculations for the OBT Service Delivery program are based on project categorisations devised by Greening Australia and reported to Environment Australia under the OBT contract. Greening Australia indicated that it will discuss the variations in administration costs with Environment Australia.

4.62 The ANAO found that in total some 30.5 Annual Staffing Level (ASL) representing nearly \$2.5 million per annum is used directly by DPIE and Environment Australia on administering the landcare programs examined. ⁵ This represents 2.5 per cent of the total annual program costs (which is approaching \$100 million). The ANAO notes that apart from \$83 000 spent by Environment Australia on the National Waterwatch Facilitator, all Commonwealth administrative resources were incurred from agency running costs (not program costs).

4.63 The ANAO, in consultation with DPIE and Environment Australia, also allocated those agencies' administrative expenditure for each landcare program into five key activity areas (which are summarised in Appendix 6) to determine which activities consumed the most resources. The ANAO found that, on average, over 44 per cent (represented by 13.2 ASL) of administrative expenditure incurred directly by DPIE and Environment Australia is spent on input controls (that is, the project application and assessment/contract negotiation processes) notwithstanding the scrutiny embodied into the One-Stop-Shop process (Case Study 3 refers). Figure 11 illustrates the breakdown of Commonwealth administrative resources by key activity.

4.64 The ANAO considers that DPIE and Environment Australia should be able to place greater reliance on the scrutiny of applications by regional and State assessment panels as part of the One-Stop-Shop process, assess the Commonwealth's residual risk and allocate Commonwealth resources accordingly (where necessary) to reduce those residual risks to acceptable levels. The ANAO notes that it made a similar recommendation in a previous review of the NLP in 1994-95 but little has been done to pursue this recommendation. ⁶

Figure 11 - Commonwealth administrative expenditure by key activity¹



1 Commonwealth administrative expenditure is funded from departmental running costs not program costs.

* and contract negotiation and approval.

Appendix 6 includes a breakdown of Commonwealth administrative expenditure for each landcare program.

Conclusion

4.65 The ANAO considers that DPIE and Environment Australia should benchmark service delivery agency administration activities and costs between programs so as to ensure that DPIE and Environment Australia are receiving value-for-money. In addition, the ANAO considers that DPIE and Environment Australia should be able to place greater reliance on the scrutiny of applications by regional and State assessment panels as part of the One-Stop-Shop process, assess and rank the risk to the Commonwealth, and then allocate Commonwealth resources accordingly.

Recommendation No.11

4.66 The ANAO *recommends* that DPIE and Environment Australia:

(a) examine the benefits of benchmarking service delivery agency administration activities and costs between programs to ensure the Commonwealth is receiving value-for-money; and

(b) ensure that administrative resource allocations appropriately match identified sources of risk to the Natural Heritage Trust.

Responses:

4.67 DPIE agrees with this recommendation. Environment Australia also agrees but with reservation. The reservation relates to the resource implications that implementing this recommendation would have.

Competitive tendering

4.68 An openly transparent and contestable process for delivering financial assistance is essential for demonstrating value-for-money, probity and accountability within an administrative system. Where the Commonwealth contracts out the service delivery function, market testing can assist the Commonwealth to obtain value-for-money outcomes. Market testing would also be consistent with the Government's decision in response to the Industry Commission Inquiry into Competitive Tendering and Contracting. The Government's decision was that all agencies should review their responsibilities in terms of the most cost effective method of service delivery.

4.69 In administering program funds, both DPIE and Environment Australia rely substantially on the services of 'provider' agencies for program delivery. However, neither DPIE or Environment Australia use competitive tendering arrangements for the delivery of programs to 'market test' the value-for-money opportunities as recommended in the Commonwealth Procurement Guidelines.⁷

4.70 DPIE uses the States/Territories through formal Partnership Agreements which are linked to the *Natural Resources Management (Financial Assistance) Act 1992*. The States/Territories must generally provide matching contributions for their NLP Commonwealth-State projects. The States/Territories also manage the distribution of the community component of the NLP to grant recipients. On the other hand, Environment Australia either manages programs directly (for example, OBT and STB Community Grants programs), uses the States/Territories (for example, Waterwatch program) or uses non-government organisations (primarily Greening Australia) as a service provider (for example, OBT Service Delivery program, RMCOG/NCOG programs). Where services are provided directly by Environment Australia, the States/Territories provide technical advice and assistance through partially Commonwealth-funded coordinators within State/Territory departments. Where service delivery is out-sourced, Environment Australia has not used competitive tendering processes.

4.71 Entering into competitive tendering arrangements for the delivery of Commonwealth programs provides potential for the Commonwealth to reduce its administrative costs. As illustrated in Case Study 8, administrative costs currently funded by the Commonwealth includes costs incurred by the Commonwealth directly and Commonwealth-funded administrative costs of service delivery agencies.

Conclusion

4.72 A transparent and contestable process for delivering program inputs is

important to demonstrate value-for-money, probity and accountability within an administrative system. The ANAO considers that there is scope for introducing competitive tendering for the delivery of NHT programs. Competitive tendering offers the potential to reduce administrative costs for the delivery of NHT programs. However, a balance needs to be struck between the costs which may reasonably be incurred in promoting competition and the benefits to be obtained. The administrative arrangements for the new NHT are yet to be finalised. Therefore, the ANAO considers that this situation provides agencies with the opportunity to make program delivery more open and contestable in the pursuit of value-for-money for the Commonwealth.

Recommendation No.12

4.73 The ANAO *recommends* that DPIE and Environment Australia consider open, competitive tendering arrangements, where appropriate, for the delivery of the Natural Heritage Trust programs so that value-for-money options can be fully market tested.

Case Study 8: Administration costs funded by the Commonwealth and value-for-money

In the absence of specified program outcomes, it is important for the Commonwealth to monitor its resources used to administer the Landcare programs to determine whether the Commonwealth is receiving value-for-money. Administration costs funded by the Commonwealth come in two forms - resources consumed directly by the Commonwealth to administer the programs (usually funded from running costs) and program funds consumed by the service delivery agencies to administer the programs. In order for the Commonwealth to determine whether it is receiving value-for-money in program administration, both forms of administrative costs must be taken into account. For example if administration costs incurred directly by the Commonwealth are examined, the OBT Service Delivery program would appear to have the *lowest* percentage of administration costs (relative to program funds). However, when OBT Service Delivery administrative costs incurred by Greening Australia and funded by the Commonwealth are taken into account, the OBT Service Delivery program has the *second highest* percentage of administrative costs.

The table below summarises annual administrative expenditure funded by the Commonwealth. It demonstrates that Commonwealth administrative costs are generally low at 2.5% of program costs (although these costs are generally funded from running costs not program costs). On average, service delivery agencies administration costs funded by the Commonwealth equate to that incurred by the Commonwealth directly. Depending on the volume of work involved, such a ratio may be reasonable. However, DPIE and Environment Australia do not have a sound basis for determining whether in fact the Commonwealth is receiving value-for-money from each program.

The One-Stop-Shop process provides DPIE and Environment Australia with some assurance that the Commonwealth is receiving value-for-money from those programs assessed through the One-Stop-Shop. Environment Australia has insufficient information to determine whether it is receiving value-for-money from the OBT Service Delivery and RMCOG/NCOG programs delivered by Greening Australia. The ANAO

considers that both DPIE and Environment Australia would benefit from benchmarking Commonwealth-funded service deliver administration costs for each landcare program.

Table - Average annual administrative expenditure funded by the Commonwealth¹

Program/Component	Average annual program costs	Commonwealth admin costs as a % of program costs	Service delivery agency admin costs as a % of program costs	costs as a % of program costs
NLP Commonwealth-State and Community	84,171,000	2.0%	1.2%	3.1%
NLP National	3,574,000	4.2%	0.0%	4.2%
OBT Service Delivery	4,300,000	2.0%	22.8%	24.8%
OBT and STB Community Grants	3,164,750	6.8%	14.5%	21.3%
Waterwatch	1,050,000	17.4%	16.8%	34.2%
RMCOG/NCOG	1,700,000	9.2%	4.7%	13.9%
Total	\$97,959,750	2.5%	2.7%	5.2%

¹ Appendix 7 explains the source of these figures.

Economies of scale appear to exist in relation to the amount of Commonwealth administrative resources consumed for each program/component. This is demonstrated by NLP Commonwealth-State and Community component (the largest program/component) which has Commonwealth administrative costs at two per cent of program funds, whereas the Waterwatch program (the smallest) has Commonwealth administrative costs at 17.4 per cent of program funds. This observation would appear to lend support to the argument that combining small environment programs into larger programs would lead to greater administrative efficiencies.

Responses:

4.74 DPIE agrees with this recommendation. Environment Australia also agrees with the recommendation with reservation. The reservation relates to the need to take into account cases where competitive tendering can not be easily pursued - that is, the situations where the service is so specialised that there is either limited or sole suppliers.

Other financial risks

Fraud controls

4.75 The Fraud Control Policy of the Commonwealth states that '*Chief Executives are responsible ... for articulating clear standards and procedures to encourage the minimisation and deterrence of fraud ...*'.⁸ Integral to the implementation of the Commonwealth's Fraud Control Policy is the preparation of a fraud risk assessment and fraud control plan by each Commonwealth department and agency. The Commonwealth Law Enforcement Board (CLEB) provides an independent quality assurance check of

Fraud Risk Assessments and Fraud Control Plans.

Department of Primary Industries and Energy

4.76 A 1994 fraud risk assessment concluded that the most important areas of risk for the NLP were:

- community-based projects may use funds in ways that are outside the agreed project objectives; and
- Commonwealth-State projects may be used to substitute Commonwealth funds targeted for the Landcare project for expenditure which the State/Territory would normally have incurred. The issue of substitution (or cost-shifting) is discussed in greater detail below ⁹.

4.77 The 1994 review found overall, that the NLP has the advantage of:

- multiple levels of review through the RAP and SAP structures;
- much of the day-to-day fraud control and asset management rests with States and Territories; and
- low number of cheques flowing from DPIE provided a high level of control for the Commonwealth. ¹⁰

4.78 In September 1996, CLEB and the Australian Federal Police formally evaluated DPIE's fraud control plan and found that it complied with the requirements of the Commonwealth's Fraud Control Policy. DPIE's fraud risk assessment found, after considering inherent risks and existing fraud controls, that the residual risks for the NLP Commonwealth-State and Community component and the National component were medium-to-low and low respectively.

4.79 In November 1996, the Commonwealth Ombudsman produced a report on an investigation of a complaint about DPIE's administration of the NLP in relation to a grant to a Community Landcare Group which raised issues concerning the proper administration of community grants. As well as the investigation, the report contained recommendations for improving the administration of the NLP in the future ¹¹. DPIE has agreed to incorporate these recommendations under the NHT and has already implemented the recommendation relating to redesigning the Landcare grant application form to clearly reflect that grant applications have group support.

Environment Australia

4.80 The former Australian Nature Conservation Agency did not have an effectively functioning fraud control plan during the life of the Landcare programs examined by ANAO. The Agency had begun to undertake a fraud risk assessment when a decision was made in April 1996 to incorporate it into Environment Australia. DEST has since assumed the responsibility of implementing a fraud control plan covering Environment Australia. DEST has finalised its fraud risk assessment and is in the final stages of preparing its fraud control plan. DEST expects CLEB to formally

evaluate its fraud risk assessment and fraud control plan in late 1996-97. This would allow the fraud control plan to be fully operational from the start of the 1997-98 financial year.

Cost-shifting (or substitution)

4.81 Cost-shifting or substitution is the practice of using Commonwealth monies to fund activities or programs that were formerly funded by State/Territory or local governments. The issue of cost-shifting is particularly relevant in the environmental and natural resource management areas as the eligibility criteria for Commonwealth financial assistance under its programs is similar in nature and focus to those of similar State/Territory assistance programs.

4.82 As identified in the 1994 DPIE fraud risk assessment, cost-shifting is a significant risk for DPIE under the NLP. However, the ANAO considers that cost-shifting is less of a problem for Environment Australia' programs because of the relatively small amount of funding available under these programs (when compared to the NLP or similar State/Territory programs). Under the National Vegetation Initiative within the NHT, however, cost-shifting could become a more significant issue.

4.83 There is some evidence that cost-shifting is an issue. For example:

- a report for the Parliament described the Commonwealth-State Partnership Agreements as '*a subsidy scheme for States to carry out natural resource management work that was traditionally their responsibility in the first place*'; ¹² and
- one State sought NLP funding for agricultural extension services following major budgetary cutbacks. In this case DPIE refused to provide Commonwealth funding.

4.84 The NLP Partnership Agreements try to manage cost-shifting by stating that Commonwealth financial assistance:

'is not to be used to provide support for the normal administrative expenses of government or to replace State funding for undertaking its constitutional responsibilities'.

4.85 The ANAO acknowledges that monitoring State/Territory activity for cost-shifting is very time consuming and difficult to demonstrate. The problem with determining whether cost-shifting has or is occurring is that there is no real baseline from which to measure changing funding patterns. Both the Commonwealth and the States/Territories can and have legitimately adjusted their policies and program allocations over time to suit changing budgetary and client needs.

4.86 The ANAO consulted State/Territory departments and agencies and examined their annual reports and financial statements for the last three years to:

- determine the amount of State/Territory funding to natural resource management and off-reserve vegetation programs; and
- make comparisons to Commonwealth funding for similar programs over time.

4.87 As States/Territories departments and agencies account for program

expenditure differently, such an analysis is imprecise. However, it is sufficient to give an indication of relevant State/Territory program expenditure and trends.

4.88 The ANAO found that although relevant 1993-94 Commonwealth program expenditure rose by 10 per cent and 8 per cent in 1994-95 and 1995-96 respectively, State/Territory expenditure on equivalent programs remained the same in 1993-94 and 1994-95, but increased in 1995-96. The ratio of Commonwealth to State/Territory expenditure for the three years ranged from 1 : 4.8 to 1 : 5.3. Table 15 illustrates relevant Commonwealth to State/Territory expenditure from 1993-94 to 1995-96.

Table 15 - Commonwealth and State/Territory expenditure on natural resource management and off-reserve conservation programs from 1993-94 to 1995-96

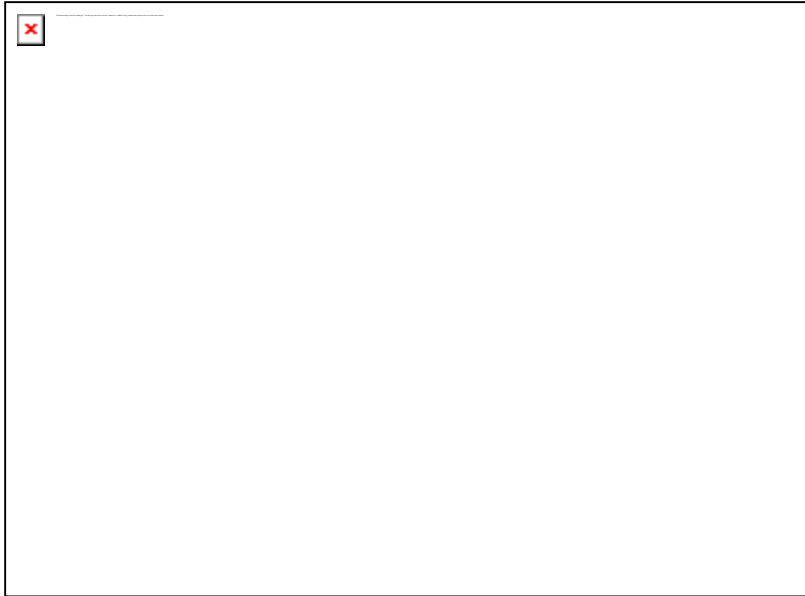
	Financial years			Three-year
	1993-94	1994-95	1995-96	total
Total State/Territory expenditure ¹ (\$m)	588.6	586.5	677.0	1852.1
Commonwealth expenditure ² (\$m)	111.6	122.9	133.2	367.7
Ratio of Commonwealth expenditure to State/Territory expenditure	1 : 5.3	1 : 4.8	1 : 5.1	1 : 5.0

1. Only State/Territory expenditure on natural resource management and off-reserve conservation programs that are comparable to Commonwealth expenditure has been included. State/Territory expenditure excludes forestry activities, all in-kind contributions, and relevant Commonwealth program funds paid to and through the States/Territories. Depending upon the way financial information was presented, most State/Territory program administration costs are included. Relevant ACT expenditure is excluded as sufficiently reliable information was not available.

2. Program expenditure from relevant Commonwealth programs. For comparative purposes, the ANAO has included administrative costs allocated at a rate of 2.5% of program expenditure. (2.5% was the rate at which the ANAO determined Commonwealth administrative costs to be in relation to program expenditures for the Landcare programs examined - refer to Appendix 7). The ANAO considers that this administrative cost allocation to be a conservative estimate.

4.89 As might be expected, NSW, Vic, Qld and WA are the States with the greatest expenditure on natural resource management and off-reserve conservation programs. Figure 12 illustrates the relevant State/Territory expenditure. Expenditure in Vic and Qld increased between 1994-95 and 1995-96, whereas NSW expenditure fell then increased and WA expenditure increased then fell over these years. Figure 13 illustrates the annual change in State/Territory expenditure on natural resource management and off-reserve vegetation programs.

Figure 12 - Commonwealth and State/Territory expenditure on natural resource management and off-reserve vegetation programs between 1993-94 and 1995-96¹



1 Only State/Territory expenditure on natural resource management and off-reserve conservation programs that are comparable to Commonwealth expenditure has been included. State/Territory expenditure excludes forestry activities, all in-kind contributions, and relevant Commonwealth program funds paid to and through the States/Territories. Depending upon the way financial information was presented, most State/Territory program administration costs are included. Relevant ACT expenditure is excluded as sufficiently reliable information was not available.

4.90 Sharp, significant reductions in funding increases the risk of cost-shifting for the Commonwealth. To reduce this risk, the ANAO considers that DPIE and Environment Australia should monitor aggregate State/Territory expenditure on relevant programs as well as project-by-project in order to identify areas of possible cost-shifting.

4.91 The ANAO considers that DPIE has sought to protect the NLP program from potential cost-shifting. Not surprisingly, projects funded under the NLP are similar to projects that could be regarded as traditional State/Territory natural resource management responsibilities.

4.92 The ANAO considers that one way to minimise the potential for cost-shifting is for the Commonwealth to clearly define the types of projects and project activities covered by the programs. The attachments to the NHT Partnership Agreements currently under development provide an ideal means by which the Commonwealth and the States/Territories can determine this.

Figure 13 - Annual change in Commonwealth and State/Territory expenditure on natural resource management and off-reserve conservation programs from 1993-94 to 1995-96¹



1 Only State/Territory expenditure on natural resource management and off-reserve conservation programs that are comparable to Commonwealth expenditure has been included. State/Territory expenditure excludes forestry activities, all in-kind contributions, and relevant Commonwealth program funds paid to and through the States/Territories. Depending upon the way financial information was presented, most State/Territory program administration costs are included. Relevant ACT expenditure is excluded as sufficiently reliable information was not available.

Double-dipping

4.93 In the context of Landcare programs, double-dipping occurs where a grant recipient receives funding from two or more different sources to undertake the same project activity; resulting in the grant recipient receiving funds greater, in aggregate, than their entitlement. Double-dipping should not be confused with the practice whereby projects legitimately receive funding from different sources. ¹³

4.94 The ANAO considers that adequate processes should be in place to manage the risk of double-dipping by NHT grant applicants.

4.95 The One-Stop-Shop process for selecting projects provides a good mechanism for controlling the risk of double-dipping because the SAPs provides a single decision point in most States/Territories for recommending the allocation of Landcare and other funds. The SAPs allocate funds from the various Commonwealth Landcare programs to different projects. Most SAPs also consider some State/Territory landcare-related programs as part of their One-Stop-Shop which provides some assurance that double-dipping does not occur with Commonwealth and State/Territory funds. In addition, for those State/Territory programs that do not form part of the One-Stop-Shop, State/Territory decision-makers are usually representatives or associates of representatives of SAP committees and would be aware of SAP funding recommendations.

4.96 With respect to non-government service delivery agencies, the risk of double-dipping is greater because:

- non-government service delivery agencies are able to apply for grant funds under most Commonwealth and State/Territory landcare programs along with any other

applicants; and

- of the absence of a process that identifies the sources of Landcare funds from the various Commonwealth and State/Territory Landcare programs.

4.97 The OBT Service Delivery contract prohibits Greening Australia from applying for NLP funding for OBT activities without the written permission from Environment Australia. This restriction applies only to the NLP and not to any other Commonwealth or State/Territory Landcare program. The Annual Program produced by Greening Australia separates OBT funding from total funding but does not disclose whether funds have been received from other Commonwealth or State/Territory landcare programs. Such disclosure would allow Environment Australia to determine the appropriateness of Greening Australia using service delivery funding in association with funding received from other government sources. The ANAO considers that non-government service delivery agencies should be required to separately disclose project funding received from all Commonwealth and State/Territory sources that are to be applied to areas covered by their service delivery functions. Environment Australia indicated that it has since negotiated improved accountability requirements with Greening Australia Limited that should identify more clearly funding sources for vegetation projects.

Conclusion

4.98 The ANAO considers that DPIE and Environment Australia have taken, or are taking, appropriate steps to manage the risks of fraud for the landcare programs examined by the ANAO. However, the risk of cost-shifting is likely to increase because of the injection of extra Commonwealth funding for natural resource management and environmental programs through the NHT. The ANAO considers that the management of the cost-shifting issue will require greater attention from DPIE and Environment Australia in the future. One method to manage the risks of cost-shifting is for the Commonwealth to more clearly define in the Partnership Agreements with States and Territories the types of projects and project activities covered by the programs.

4.99 The ANAO considers that the One-Stop-Shop process reduces the risk of 'double-dipping' by grant recipients. However, the ANAO suggests that there is a serious risk of double-dipping by non-government service delivery agencies as they:

- generally can apply for grant funds under most Commonwealth and State/Territory landcare programs; and
- currently do not disclose all funding sources for projects related to their service delivery functions.

Recommendation No.13

4.100 The ANAO *recommends* that DPIE and Environment Australia:

(a) develop an agreed position with the States and Territories as to what types and/or range of projects the Natural Heritage Trust will and will not fund and

clearly outline this within the Natural Heritage Trust Partnership Agreements or attached schedules, as appropriate; and

(b) ensure that non-government service delivery agencies separately disclose in their annual program (or equivalent) funding received from all Commonwealth and State/Territory sources that is to be applied to areas covered by their service delivery functions.

Responses:

4.101 DPIE and Environment Australia agree with this recommendation. DPIE and Environment Australia note that element (a) is being pursued in the implementation of the NHT. Element (b) does not apply to DPIE.

1

Council of Australian Governments, *op. cit.*, p. 1.

2

Appendix 6 outlines the methodology by which administrative costs were determined. It also provides a more detailed list of processes that form part of the five identified key activities.

3

Program delivery mechanisms range from programs managed by States/Territories (NLP Commonwealth-State and Community components, Waterwatch), programs managed by non-government organisations (OBT Service Delivery and RMCOG/NCOG) to programs managed directly by the Commonwealth (NLP National component and OBT and STB Community Grants).

4

Figure 9 illustrates the distribution of OBT Service Delivery funding to each State/Territory Greening Australia body for 1996-97 - including the 'administration' type projects which range from 4.5-39.5% of each State/Territory Greening Australia body's share of the OBT Service Delivery funds.

5

One Annual Staffing Level (or ASL) represents the full-time employment of one staff member for one year.

6

ANAO 1993, *National Landcare Program et al: Preliminary Study*, Audit Report No.29 1994-95, AGPS, Canberra.

7

The ANAO acknowledges, however, that in some cases, it was a Government decision to allocate the delivery of programs, such as the OBT program (Prime Minister's 1989 Statement on the Environment) and the RMCOG/NCOG programs (Prime Minister's 1992 Statement on the Environment) to Greening Australia.

8

Commonwealth Law Enforcement Board 1994, *Best Practice for Fraud Control*, AGPS, Canberra, p. 2.

9

Nicholson Consulting Group Pty Limited 1994, *Natural Resource Management Programs Fraud Control Review Report*, unpublished.

10

ibid.

11

Commonwealth Ombudsman 1996, *DPIE and Landcare: Investigation of a complaint about the Department of Primary Industries and Energy's administration of the National Landcare Program in relation to a grant to a Community Landcare Group*, Report under section 35A, Commonwealth Ombudsman, Canberra, pp. 40-44.

12

B. Williams, 1995, *Research Paper No. 22 1994/95: Landcare and the Mythical Money Tree*, Parliamentary Research Service, Department of the Parliamentary Library, Canberra, p. 27.

13

For example, a project designed to reduce gully erosion may receive NLP Community grants funds for drainage works, OBT Community Grants funding for tree planting around and in the gully, and STB Community Grants funding to protect remnant vegetation around the gully from grazing.

5. Implications for the Natural Heritage Trust

5.1 Environment Australia has indicated that it could take up to eighteen months for the attachments (containing program targets and milestones) to the NHT Partnership Agreements to be finalised. This timeframe is consistent with the time it took DPIE to

finalise the NLP Partnership Agreements. The ANAO notes that DPIE and the States/Territories were on a 'learning curve' during the development of the NLP Partnership Agreements and the experience gained during this exercise should enable the swifter implementation of the NHT Partnership Agreements. However, the ANAO is concerned that, if it takes as long to finalise the NHT Partnership Agreements, the Commonwealth will not be able to adequately assess NHT program performance in 1997-98 and performance assessment in 1998-99 could also be disrupted - leaving only three of the six financial years of the NHT program remaining. The ANAO suggests that the Commonwealth should make every effort to finalise the preparation of the NHT Partnership Agreements as soon as possible.

5.2 The ANAO has undertaken this performance audit to assist the Parliament and Commonwealth entities in the program design and delivery for the NHT. The ANAO notes the positive attitude and approach taken by officials from the Department of Primary Industries and Energy and Environment Australia throughout the course of the audit. Many of the suggestions raised by the ANAO in the discussions with agencies have already been incorporated within the draft design of the proposed NHT Partnership Agreements. For example, roles and responsibilities are much more clearly articulated for all parties to the agreement. The ANAO also accepts that many of the 'lessons learned' from the respective experiences from the NLP are planned for incorporation within the NHT. For example, the 'One Stop Shop' approach has been further strengthened as the centrepiece of the community grants component of key NHT Programs.

5.3 Although these are steps forward, the ANAO considers that there are areas of risk still to be addressed if program efficiency, effectiveness and accountability are to be achieved. These areas of risk form the basis of the recommendations in this report. In summary, they are:

- setting operational objectives for programs that are concise, realistic and measurable outcomes-oriented statements of what the program aims to achieve;
- establishing clearly differentiated roles and responsibilities for the Commonwealth and other parties to the Agreements;
- developing adequate performance indicators and milestones linked directly to objectives;
- strengthening the needs assessment process;
- improving the outcomes focus of the programs;
- further improving the client focus for the program;
- improving performance on monitoring, review and reporting;
- introducing competitive tendering where appropriate;
- ensuring that administrative resources are focussed on the highest areas of risk;

- moving to best practice for cash management;
- introducing appropriate incentives and sanctions within the contracts; and
- ensuring that fraud control and monitoring of non-compliance is adequately maintained and followed up.

5.4 An NHT implementation group has been established involving DPIE, Environment Australia and the Department of Finance to address NHT monitoring and evaluation issues.

5.5 The ANAO considers that the recommendations made in this report provide the basis for collaborative, risk management-based action by both the Department of Primary Industries and Energy and Environment Australia. The increased funding through the NHT plus the raised community expectations generated through the announcement of the initiative suggest that the level of risk may be higher than in the past. Consequently, a prudent risk management strategy is needed by the Commonwealth if it is to achieve value for money in reaching its objectives.

Recommendation No.14

5.6 The ANAO *recommends* that DPIE and Environment Australia complete the preparation of Natural Heritage Trust Partnership Agreements, including the attachments containing program targets and milestones, as a matter of urgency to ensure efficient and effective program delivery.

Responses:

5.7 DPIE and Environment Australia agree with this recommendation. DPIE notes that the NHT Partnership Agreements are being pursued as a matter of priority under the NHT. Environment Australia indicated that the intention is to finalise the overarching agreements before the end of the financial year.



Canberra ACT

4 June 1997

P. J. Barrett

Auditor-General

Glossary

dryland salinity

soil salinity levels high enough to affect plant growth; occurs as a result of natural soil forming process (primary salinity) or in disturbed landscapes through clearing or other activities that interfere with the water and salinity balance and lead to shallow watertables; hydrological response to the replacement

of deep-rooted perennial native vegetation with shallow-rooted annuals which use less water; as a consequence more rainfall enters the groundwater, causing watertables to rise; where these rise to within 1-2 metres of the soil surface, salination occurs as a result of [evaporation and/or plant transpiration]; can result in both stream and soil salinity.¹

Greening Australia	Greening Australia consists of nine separate legal entities - Greening Australia Limited (GAL - the 'peak' body) and one for each of the eight State/Territory Greening Australia bodies. Environment Australia has contracted GAL to undertake the OBT Service Delivery program and GAL in turn, has sub-contracted most of the work to the State/Territory Greening Australia bodies. This relationship is illustrated in Figure 9.
program costs	The expenditure of funds appropriated by Parliament or allocated by Ministers to government programs (such as the National Landcare Program and the One Billion Trees Program).
running costs	The expenditure of funds appropriated by Parliament or allocated by Ministers to the day-to-day administration of Commonwealth departments and agencies. Running costs include salaries, property operating expenses and other administration costs.
soil acidity	caused the deposition on the earth's surface, either in dry or wet form, of substances, derived from natural and human-induced emissions of various compounds, especially those of sulfur and nitrogen which have been transformed by chemical processes in the atmosphere. ¹
waterlogging	the saturation of soils with water; often associated with insufficient oxygen for plant growth. ¹
watertable	a surface defined by the level to which water rises in an open well or piezometer [an instrument used to measure the level of watertable]. ¹

Source:

1 State of the Environment Advisory Council 1996, *Australia: State of the Environment 1996*, CSIRO Publishing, Victoria, p. A-22.

Appendix 1.

Figures, Tables and Case Studies

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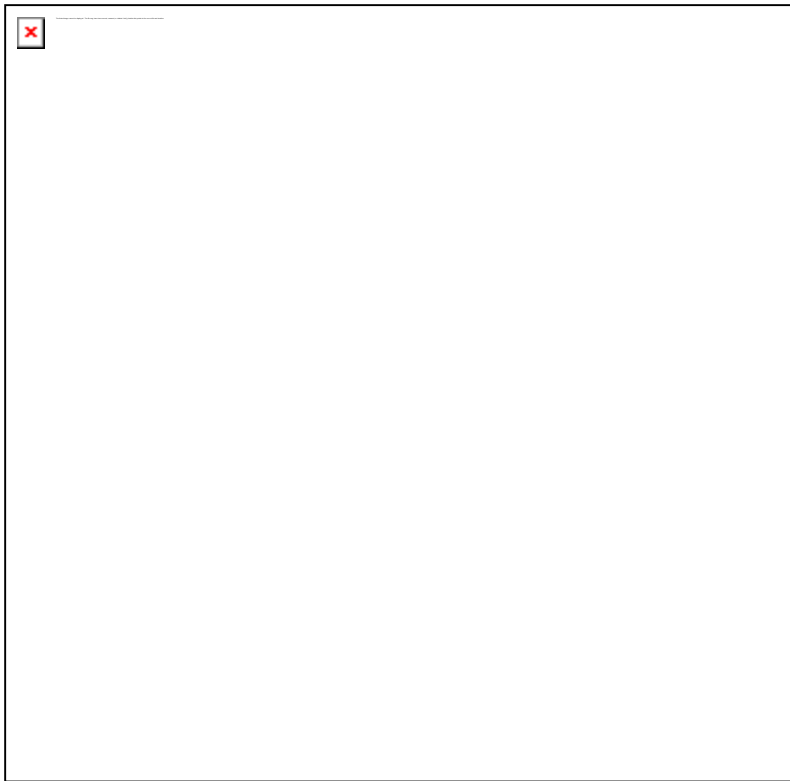
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Case Study 9	- Community landcare
Case Study 10	- Property management planning
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Appendix 2.

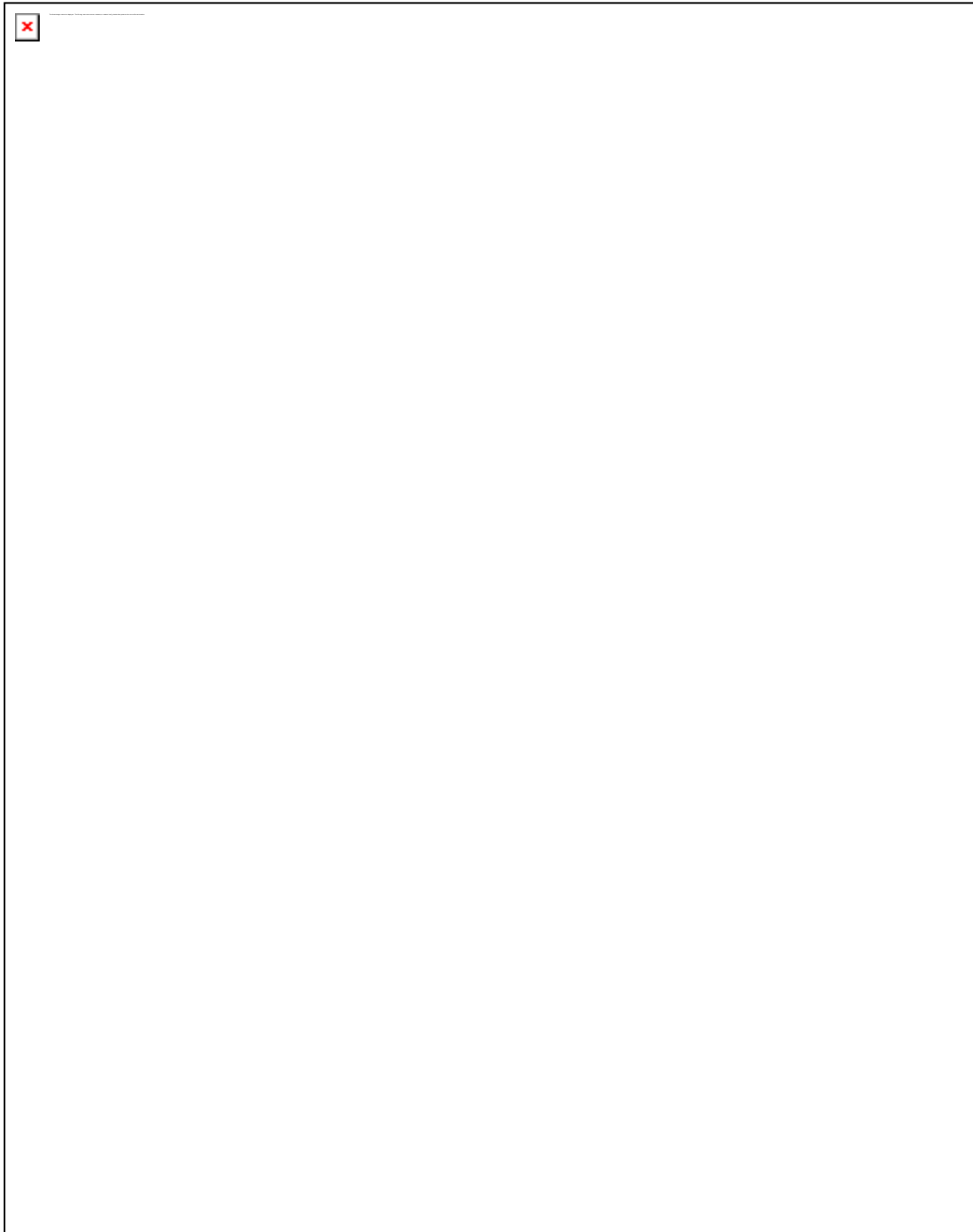
Maps of Land Use in Australia and Changes in Vegetation since 1788



These figures demonstrate the close correlation between the farming of arable land and land clearance in Australia

Appendix 3.

Map of Murray-Darling Basin



Appendix 4.

Natural Heritage Trust programs

National Heritage Trust programs

Program/ Initiative (Administering Department)	Stated Aim	Delivery	Funds ¹ (\$m)
VEGETATION			
National Vegetation Initiative (Bushcare) (DEST)	Aims to halt the long-term decline in the quality and extent of Australia's native vegetation cover and will incorporate the One Billion Trees, National Corridors of Green, Save the Bush and Grasslands Ecology Program.	Project applications for grant funds will be submitted through the NHT 'One-Stop-Shop' and assessed by State Assessment Panels under the Commonwealth-State National Partnership Arrangements.	328.6
Farm Forestry Program (DPIE)	Aims to encourage the incorporation of commercial tree growing and management into farming systems for the purpose of wood and non-wood production, increasing agricultural productivity and sustainable natural resource management. Farm forestry has the potential to provide substantial environmental benefits, including greenhouse gas reductions and enhanced biodiversity, as well as landcare, regional development and employment benefits.	Implementation will involve the States, regional plantation and farm forestry committees and other relevant regional organisations. Initial funding under the NHT is to be made available through the National Partnership and Commonwealth components. Proposals for funding under the Commonwealth component will be handled separately. This Commonwealth component will address strategic national, Australia-wide and cross-state initiatives.	22.0
RIVERS			
Murray Darling 2001 Project (DPIE)	Aims to contribute to the rehabilitation of the Murray-Darling Basin, with a view to achieving a sustainable future for the basin, its natural systems and communities. It aims to accelerate activities through the Natural Resource Management Strategy to promote and coordinate effective planning and management for the equitable, efficient and sustainable use of the water, land and other environmental resources of the Murray-Darling Basin.	All Murray-Darling 2001 activities will be delivered within the framework of the Murray-Darling Basin Commission's Basin Sustainability Program. Project applications need to address the priority areas and activities identified in three year rolling plans prepared by each State in the Murray-Darling Basin through the Murray-Darling Commission processes.	163.0
National Rivercare Initiative (DPIE)	Aims to encourage the sustainable management, rehabilitation and conservation of rivers outside the Murray-Darling Basin. It will incorporate the National River Health Program, Waterwatch Australia and elements of the National Fishcare Program.	Project applications for grant funds will be submitted through the NHT 'One-Stop-Shop' and assessed by State Assessment Panels under the Commonwealth-State National Partnership Arrangements.	97.0
National Wetlands Program (DEST)	Aims to promote the conservation of Australia's wetlands by encouraging the development and 'wise use' management practices by both the government and non-	Applications for funding under the National Wetlands Program will be assessed by specialised wetlands assessment panels. Separate National Wetlands Program Guidelines apply.	11.0

	government sectors. Community based projects will help to conserve wetlands and wetlands of national importance determined at the Convention on Wetlands of International Importance (Ramsar Convention).	Applications may be submitted through the NHT 'One-Stop-Shop' or directly to the relevant State/Territory or Commonwealth agencies.	
Tasmanian Regional Environment Remediation Program (DEST)	Aims to address off-site environmental problems caused by historic mining practices thereby improving water quality in certain Tasmanian rivers	unknown	8.8
BIODIVERSITY			
National Reserves System Program (DEST)	Aims to provide matching funding with State and Territory Governments for the implementation of a comprehensive, adequate and representative system of reserves.	Proposals for National Reserves System projects will generally come from, or through, State/Territory agencies, or through State/Territory agencies. Assessment will be by a specialised assessment panel after initial review by the Commonwealth.	80.0
Endangered Species Program (DEST)	Aims to assist in the recovery of nationally threatened species, ecological communities and the abatement of key threatening processes affecting these species and communities.	Assessment of proposals will be made against the national priorities outlined in the <i>Priority Threatened Species and Ecological Communities for Conservation Action</i> . Proposals for funding from the Endangered Species Program will not be processed through State Assessment Panel processes.	16.0
LAND RESOURCES			
National Landcare Program (including landcare tax measures (DPIE))	Aims to develop and implement integrated approaches to natural resource management in Australia which are efficient, sustainable, equitable and consistent with the principles of ecologically sustainable development.	Project applications for grant funds will be submitted through the NHT 'One-Stop-Shop' and assessed by State Assessment Panels under the Commonwealth-State National Partnership Arrangements.	264.0
National Land and Water Audit (DPIE & DEST)	Aims to establish the first comprehensive national appraisal of the condition of Australian land and water resources and of the environment and economic costs to the nation of land and water degradation; and to provide a baseline against which to assess effectiveness of Government policies and programs.	The Government has identified the Commonwealth Scientific and Industrial Research Organisation as the lead agency to quantify the annual and cumulative effects of degradation on Australia's economy and environment.	37.0
National Weeds Strategy (DEST & DPIE)	Aims to strengthen the cost efficiency and effectiveness of weed management in Australia. The objective of the Commonwealth is to enhance the capacity of States, local	Assessment of proposals will be made against the national priorities outlined in the National Weeds Strategy. Proposals for funding will be considered by the National Weeds Strategy Executive Committee, rather than processed through the Regional	24.0

	government and landholders to adequately manage the effects of weeds on the natural environment and agricultural production through the implementation of key activities of the National Weeds Strategy.	and State Assessment Panels.	
National Feral Animal Control Strategy (DEST & DPIE)	Aims to develop and implement in cooperation with State, Territory and local Governments, a National Feral Animal Control Strategy to reduce the damage to agriculture and the environment from feral animals. It aims to develop and implement threat abatement plans for foxes, feral goats, rabbits and feral cats, as required under the <i>Endangered Species Protection Act 1992</i> .	Assessment of applications will be made against priorities and strategies established through the threat abatement plan process. Activities under the National Feral Animal Control Strategy will be developed on the basis of direct approach to the relevant State and Territory agencies, not through the State Assessment Panel application process.	16.0
Property Management Planning (DPIE)	Aims to assist farmers to develop and implement farm management plans that aid the implementation of sustainable agricultural practices	unknown	15.0
COASTS AND OCEANS			
Coasts and Clean Seas Initiative (DEST & DPIE)	Aims to ameliorate coastal and marine pollution and threats to Australia's coastal water quality and marine biodiversity.	Measures will include assistance to State, Territory and local governments to address threats to the coastal zone from stormwater and sewage, provide additional funding for research into exotic marine organisms from ships' ballast water, improve Australia's capacity to respond to oil spills, and develop an integrated Oceans Policy.	106.0
HUMAN SETTLEMENT			
Waste Management Awareness Program (DEST)	Aims to improve community and industry awareness of waste management issues in Australia.	The program will fund waste minimisation awareness programs for the general community, with a focus on rural areas, government and relevant industry sectors.	5.0
ATMOSPHERE			
Air Pollution in Major Cities (DEST)	Aims to provide a strategic national approach to the improvement of urban air quality.	The NHT will provide funds towards development of air quality standards, an air quality monitoring network, and encouragement of new technologies and cleaner production practices.	16.0
AUSTRALIAN HERITAGE			
World Heritage Area Management and Upkeep (DEST)	Aims to meet Australia's national and international obligations to protect, conserve and present Australia's World Heritage properties.	Funds will be provided help develop and implement World Heritage property management plans, via consultative structures including ministerial councils, community consultation bodies and scientific advisory bodies. There will also be training for World	39.7

		Heritage property managers and improved information programs.	
Total			1 249.0

Due to rounding, column does not add exactly to total.

1 Funds provided over six years from 1996-97.

Appendix 5.

Case Studies

Case Study 9: Community landcare

The NLP has had some success in the formation of a network of landcare groups across Australia. As at June 1996, there were approximately 3200 landcare groups across Australia. The 1992-93 ABARE survey of Landcare and Land Management Practices found that 14 271 farm businesses (13.5 per cent) were involved with Landcare Australia. Landcare members are also generally younger, more aware of land degradation problems on their properties, more likely to incur expenditure for landcare-related works and possess a farm plan. They were more likely to be active in areas such as tree planting and conservation works, monitoring of water quality and conservation tillage techniques. This high-level program output is consistent with the NLP objective concerned with promoting community, industry and government partnerships in the management of natural resources.

Independent evaluations of the NLP in Victoria, Western Australia and South Australia also reveal a number of positive outputs. For example, the 1995 evaluation of 145 community landcare groups in Victoria highlighted the capacity of landcare to mobilise community cooperation. Group membership stood at 13 000 people in early 1994 with an additional 17 000 people visiting to assist or study landcare work. Groups reported that they had conducted large numbers of field days/farm walks (73 per cent of groups) and established large numbers of demonstration sites (58 per cent of groups). Some one million trees/shrubs were reported to be established in 1993 along with 911 kilometres of fencing. If the sample was extrapolated to all groups in Victoria, the figures would indicate that 400 Victorian groups planted two million trees/shrubs and erected 3072 kilometres of fencing in 1993. In Western Australia, extrapolation from a sample of 110 Land Conservation Districts put the estimate at 4.3 million trees and 11 625 kilometres of fencing. Western Australian landcare groups had also been very successful in obtaining business sponsorship which was valued at some 40 per cent of the direct government funding. In South Australia, where 50 per cent of landcare groups had been operating for less than two years, extrapolations put the figure at one million trees or shrubs and an estimated 1000 kilometres of fencing in 1993. South Australia also reported that few groups were involved in catchment and property management planning and fencing of water courses to restrict stock access.

The evaluations found that the strong performance of groups in all three States on revegetation and fencing (activities strongly related to government funding priorities), and relatively poor group performance on weed, salinity and erosion control (which

were not eligible for government funding) indicates that government funding priorities and the views of agency staff had driven much of the on-ground activity of groups.

ANAO comment

While the evidence points to positive steps towards sustainable resource use, there is still little information about the extent to which regional or catchment communities are becoming more or less sustainable. The ANAO notes that the Land and Water Resources Audit may assist in this regard - but useable data is unlikely to be available for at least two years. The importance of data for strategic planning and priority setting was noted by the Australian Conservation Foundation in a letter to the ANAO of December 1996:

'How can we pretend that we can achieve sustainable management of resources when we know that in many cases we have poor quality or inadequate information about the nature of those resources. Generally we have practised exploitation well in advance of our knowledge. ...Land management policies at both State and Commonwealth levels appear to suffer from a lack of strategic approaches, instead the voluntary community landcare is being expected to solve the many major problems.'

Case Study 10: Property management planning

The National Property Management Planning (PMP) Campaign, which was launched in 1992, sought to develop producer interest in property management planning and provide associated training. It was regarded as one of the principal Commonwealth initiatives aimed at fostering sustainable land use (the report of the Land Management Task Force in October 1995). The report found that as at January 1995, more than 2900 vocational workshops had been provided by State/Territory government agencies around Australia. Individuals from around 15 500 properties attended courses on aspects of property management.

However, the report noted that despite these efforts, the National PMP Campaign was at an early stage of development. Nevertheless, the demand for participation in workshops exceeds the capacity of State/Territory agencies to provide such workshops.

However, the report noted that Australian Bureau of Statistics and ABARE data on the extent of property management planning



(diagram refers) were collected before the National PMP campaign began in most States and thus may understate the extent of planning currently being undertaken.

Source: Land Management Task Force, Managing for the Future, Commonwealth of Australia, 1995

Case Study 11: Great Artesian Basin Rehabilitation Project

In most of Queensland, parts of NSW, South Australia, and the Northern Territory, the Great Artesian Basin (GAB) has been providing pastoralists with water from free flowing artesian bores since 1886. Many towns, pastoralists, and more recently the mining and petroleum industries, are now heavily dependent on artesian groundwater. The heavy use of artesian groundwater has resulted in large pressure drops in some areas, and about 34 per cent of the 4700 flowing bores drilled in the basin have stopped flowing. The accumulated discharge from the remaining 3100 flowing bores is about 1200 megalitres (ML)/day (which is 80% of the average daily water consumption of Sydney, Illawarra and the Blue Mountains combined for 1995-96). This is down from the maximum of 2000ML/day from 1500



flowing bores around 1918.	
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The flow from many bores is uncontrolled, in some cases creating artificial wetlands. Much of the water is distributed by 33 000 km of open bore drains, where up to 95 per cent of the water is wasted through evaporation and seepage.

The open bore drains also contribute to land degradation by supporting feral pests and noxious weeds.

The Great Artesian Basin Rehabilitation Project commenced in 1989, with the aim of rehabilitating uncontrolled flowing bores, capping the bores with gate valves to control the flow, and encouraging landholders to replace open bore drains with piped reticulation systems. Since 1989 Queensland has completed 250 bores out of 750 identified as requiring rehabilitation, at a cost of \$12.2m and an estimated water saving of 32 000ML/annum. The final cost is estimated at about \$36m, with cost-sharing as noted below. NSW has completed 31 out of 210 bores, with an estimated final cost between \$80m and \$100m. South Australia has completed its 125 uncontrolled bores.

The Commonwealth Government has contributed \$13.8m to the Great Artesian Basin Rehabilitation Project through the National Landcare Program (NLP) and predecessor programs since 1989. Funding is currently provided under the NLP on the basis of 40 per cent from the Commonwealth, 40 per cent from the State Government, and 20 per cent from the landholder. Not all landholders have agreed to the 20 per cent contribution for bore rehabilitation, and consequently some areas of high need are not receiving attention. In NSW, bore rehabilitation is linked to a contractual commitment by the landholder to replace open bore drains with pipes. Piping can cost as much as \$1m per property, further acting as a disincentive to landholders experiencing financial difficulty. The NSW Government offers a variable piping subsidy, increasing with the rate of bore discharge, to improve the incentive for landholders to invest in piping.

There have been several government and community initiatives to encourage the sustainable management of the GAB. In 1987, an inter-State working group, consisting of representatives of water management agencies in GAB States and other interested parties, was established to monitor and report on Basin performance and management issues, develop a program of research, and establish standards for bore rehabilitation and construction. In late 1995 a forum of community, government and industry groups recommended the formation of a Great Artesian Basin Consultative Council, made up of representatives of groundwater users, industry, local government, traditional landholders, conservation and government, to act as a partnership between government and the community to coordinate management of the GAB on a sustainable basis. The first meeting of the Great Artesian Basin Consultative Council

was scheduled for April 1997. In 1996 the Agriculture and Resource Management Council of Australia and New Zealand produced a policy paper titled *A National Framework for Improved Groundwater Management in Australia*. The key principles of the policy paper have since been incorporated into the 1994 Council of Australian Governments Water Reform Framework. The key principles relate to management arrangements for groundwater to ensure sustainable use of the resource, licensing of drillers, better integration of groundwater and surface water management, inefficient well design, environmental allocation, data availability and pricing.

ANAO comment

This case study highlights the legacy of poor past practice for groundwater use and the treatment of natural resources as an inexhaustible 'free good' by resource users in the range lands of Western Queensland, Western NSW, SA and the Northern Territory. Clearly, there are now substantial costs to governments and the community of measures to achieve sustainable resource use. However, even with Commonwealth assistance, achieving broad consensus amongst resource users on sustainable resource use is also no easy matter without strong incentives.

Case Study 12: Dryland salinity

The National Dryland Salinity Program is a national project under the NLP jointly supported by a consortium of State/Territory and federal agencies including the Murray Darling Basin Commission, the NLP, the Land & Water Resources Research & Development Corporation (LWRRDC) and the Commonwealth Scientific and Industrial Research Organisation. The goal of the program is to develop and implement integrated techniques and approaches for optimal management of dryland salinity. Dryland salinity is a major land degradation problem, with an estimated \$243 million a year lost in agricultural production. In 1993 LWRRDC estimated that 1.2 million hectares of land was affected by secondary salinity. This area is continuing to spread. A 1995 report from the Prime Minister's Science and Engineering Council noted that an estimated 2.9 million hectares (16 per cent of farmland) is likely to be affected by salinity by the year 2010. As part of the National Dryland Salinity Program, a survey of local government in the Murray Darling Basin in 1994 found that over 50 per cent of councils within the Basin had off-farm salinity problems with seven per cent having serious problems. The total estimated cost of salinity to council roads, bridges and infrastructure within the twelve month survey period was put at \$7.9 million. A key finding from the project is that while there were a number of control techniques being applied across Australia, State/Territory agencies generally had little confidence that these strategies would impact on salinity, and were uncertain of their effect on the economics of land use. The 1994-1998 Management Strategy notes that '*in many*

instances recommended management options seem to fail in their application, or are simply not adopted in the first place'. The lack of progress in addressing salinity can be traced back to 'poor Commonwealth and State targeting and coordination of expenditure on salinity programs. The different biophysical elements of the research and development effort have commonly been taken in isolation, did not have a client focus, lacked rigour and have rarely been integrated with socio-economic considerations.'

ANAO comment

This case study highlights how important it is to have a sound scientific basis for actions in correcting land degradation problems. More worrisome is that there appears to be no clear and effective strategies in place to address salinity management. However, at least governments are better placed to understand the problem and develop more cost effective approaches than in the past.

Source: 1995 ABARE Outlook Conference, National Dryland Salinity Research, Development and Extension Program

Appendix 6.

Administrative Costs Incurred Directly by the Commonwealth

Steps used to determine Commonwealth administrative costs

The ANAO, in consultation with DPIE and Environment Australia:

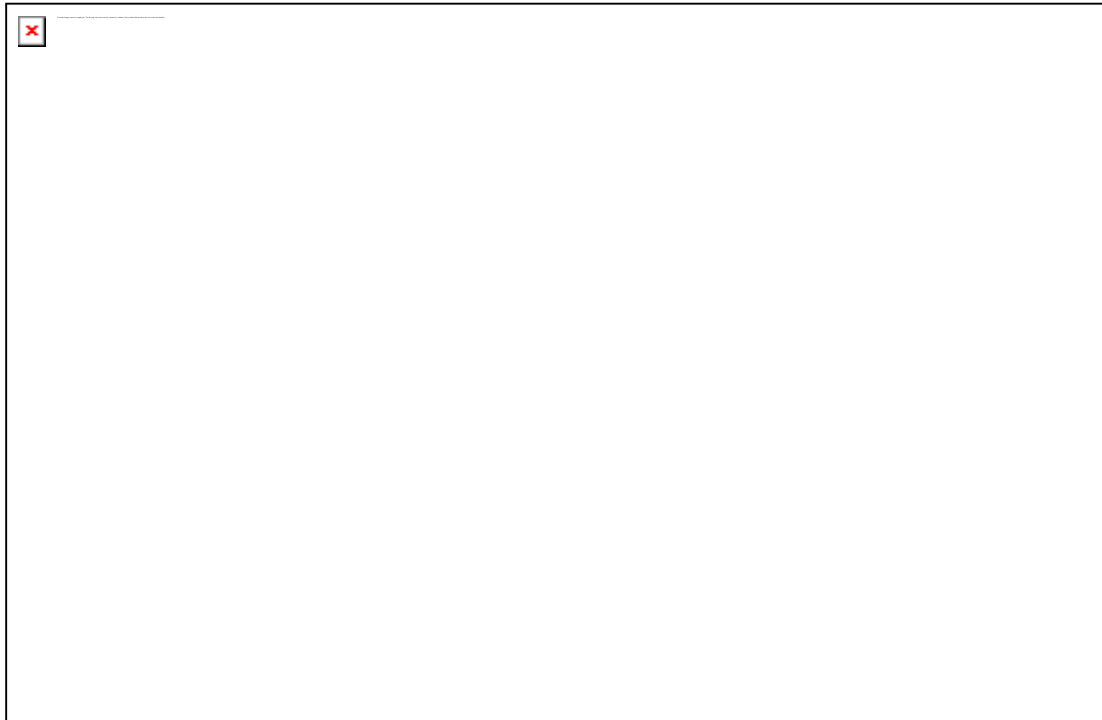
- (a) Determined the level of Commonwealth resources devoted to key administrative activities (see below) each year (ie. the Annual Staffing Level (ASL) - where 1 ASL represents the full-time employment of 1 staff member for 1 year);
- (b) Determined the cost per ASL by allocating relevant program/divisional costs (determined on a full-cost basis) by the relevant ASL in those areas; and
- (c) Multiplied (a) by (b) to determine annual Commonwealth administrative costs for each program.

Key administrative activities

The following table provides a more detailed list of processes that form part of the five identified key activities.

Key activity	Types of processes
1. Preliminary	preparation of guidelines and application forms determining priorities
2. Project applications and assessment / Contract negotiation and approval	One-Stop-Shop process briefing of RAPs and SAPs attendance at RAPs and SAPs contract negotiations and preparation project assessment Ministerial approval Entering information onto PCMS preparation and collation of letters of offer
3. Monitoring, review and evaluation	grant/contract acquittals and project performance reports program evaluations production of compendiums, other information dissemination activities production of program statistics and other performance information
4. Strategic planning (next and future years)	strategic planning needs assessment
5. Program support	payment of grants Ministerial correspondence briefings responding to queries from stakeholders, potential applicants and grant recipients secretariat services program coordination activities (eg. with DEST, DPIE, MDBC, Greening Australia, State/Territory agencies etc) database development and maintenance workshops and teleconferences file creation and management other unattributable activities relevant to the programs

The following figure illustrates the breakdown of Commonwealth administrative expenditure for each landcare program examined by the ANAO.



Appendix 7.

Average Annual Administrative Expenditure Funded by the Commonwealth

	Average annual program	Commonwealth admin. resources ²		Commonwealth admin costs as a % of	Service delivery agency admin \$ funded from	Total admin. Costs funded by the	Total admin costs as a % of
Program/Component	Costs ¹	ASL	\$	program costs	program costs	Commonwealth	program costs
NLP Commonwealth-State and Community	84,17,000 ³	18.370	1,66,696	1.97%	985,915 ⁵	2,647,611	3.1%
NLP National	3,574,000 ³	1.660	150,159	4.20%	not applicable	150,159	4.2%
OBT Service Delivery	4,300,000 ⁴	1.371	83,687	1.95%	984,651 ⁶	1,068,338	24.8%
OBT and STB Community Grants	3,164,750 ³	3.500	213,643	6.75%	461,200 ⁷	674,843	21.3%
Waterwatch	1,050,000 ⁴	3.000	183,122	17.44%	175,600 ⁸	358,722	34.2%
RMCOG/NCOG	1,700,000 ⁴	2.569	156,814	9.22%	80,000 ⁹	236,814	13.9%

Total	97,959,750	30.470	2,449,121	2.50%	2,687,366	5,136,487	5.2%
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1 Includes only Program costs of the areas examined by ANAO. Therefore amounts exclude STB research, education and public relations components; contract with ATCV under the OBT Service Delivery component, NCOG research, education and public relations component.

2 Commonwealth Administrative Resources are generally NOT funded from Program Costs. However, \$83 000 of the Waterwatch Program Costs are earmarked for the National Waterwatch Facilitator which forms part of the Commonwealth Administrative Resources for this program.

3 1995-96 Program Costs.

4 1996-97 Program Costs.

5 Total of 1996-97 NLP State Coordinators and State Evaluators projects.

6 Extracted from Greening Australia's OBT Program Budget for 1996-97: 'Policy and Program Development', 'Program Management and Administration' and 'Monitoring and Evaluation'.

7 STB State Coordinators.

8 State Waterwatch Facilitators.

9 Greening Australia's budgeted administrative costs per year.

Appendix 8.

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Appendix 9.

Performance Audits in the Environment Area

Set out below are the titles of performance audits by the ANAO in the environment area in the past five years.

Audit Report No.10 1996-97

Follow-up Audit

Energy Management of Commonwealth Buildings

- *Department of Primary Industries and Energy*

- *Department of Administrative Services*

Audit Report No.31 1995-96

Performance Audit

Environmental Management of Commonwealth Land

Site Contamination and Pollution Prevention

Audit Report No.29 1994-95

Project Audit

- *Energy Management in Defence*

Preliminary Study

- *National Landcare Program*

Audit Report No.9 1994-95

Project Audit

Australian Maritime Safety Authority

Is Australia ready to respond to a major oil spill?

Audit Report No.34 1993-94

Efficiency Audit

Department of Employment, Education and Training

Implementation of a New Program

- *Landcare and Environment Action Program (LEAP)*

Audit Report No.32 1993-94

Efficiency Audit

Department of Primary Industries and Energy

Implementation of an Interim Greenhouse Response

Energy Management Programs

Audit Report No.10 1992-93

Efficiency Audit

Living with our Decisions

Commonwealth Environmental Impact Assessment Processes

Audit Report No.47 1991-92

Efficiency Audit

Energy Management in Commonwealth Buildings