

The Auditor-General
Audit Report No.21 2007–08
Performance Audit

Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality

Department of the Environment, Water, Heritage and the Arts

Department of Agriculture, Fisheries and Forestry

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of Australia 2008

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Canberra ACT
7 February 2008

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations

ANAO	Australian National Audit Office
DAFF	Department of Agriculture, Fisheries and Forestry
Environment	Former Department of the Environment and Water Resources – now the Department of the Environment, Water, Heritage and the Arts
JSC	Joint Steering Committee
MAT	Management action target
NAP	National Action Plan for Salinity and Water Quality
NHT	Natural Heritage Trust
NRM	Natural Resource Management
RCT	Resource condition target
RIS	Regional investment strategy
SHA	Single holding account

Glossary

Accreditation	A formal process for assessing the appropriateness of a regional plan.
Bilateral Agreement	An agreement between two parties which in this case refers to agreements made between the Australian Government and each of the State/Territory governments.
Intermediate outcomes	<p>Intermediate outcomes are stepping stones towards the achievement of resource condition targets. Intermediate outcomes generally relate to medium term timeframes of one to five years. In terms of the National Heritage Trust and the National Action Plan for Salinity and Water Quality, there tends to be two types of intermediate outcomes:</p> <ul style="list-style-type: none">• those concerned with aggregate changes in how a region has been managed (total area or per cent of region managed in a certain way). For example, a reduction in pest damage, or an increase in the area of land protected; and• those concerned with a change in the attitudes and practices of land managers. For example, what land managers are doing differently as a result of participation in projects and awareness raising activities.
Joint Steering Committee	Committees comprised of senior government officials from Australian and State/Territory governments.
Joint Team	Team comprised of staff from the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry for the purpose of administering programs from each portfolio that have similar outcomes.

Regional body The entity responsible for the development of the plan and investment strategy for managing the region's natural resources. The entity also delivers the activities outlined in the plan and funded under the investment strategy.

Summary and Recommendations

Summary

Introduction

1. Australia's environmental and productive natural resources are among its most precious assets. As well as providing water, food and clothing, natural resources provide habitat for our unique plants and animals and the landscape that helps to define our image of Australia. In 1996, the *Australia: State of the Environment* report commented that [European settlement] has resulted in the introduction of many practices that... 'have radically altered and degraded much of the Australian landscape'.¹

2. The way that natural resources are used and managed is fundamental to the long-term economic viability of the agricultural sector as well as the wellbeing of current and future generations of Australians.² To better manage the use of Australia's natural resources, the then Australian Government³ implemented two natural resource management (NRM) programs, the:

- Natural Heritage Trust (NHT); and
- National Action Plan for Salinity and Water Quality (NAP).

3. The *Natural Heritage Trust of Australia Act 1997* established the NHT, which was to be a comprehensive, integrated response to *conserve, repair and replenish Australia's natural capital infrastructure*.⁴ The Department of the Environment, Water, Heritage and the Arts (Environment) has been responsible for delivery of two phases of the NHT. The first phase, NHT 1 (1996–97 to 2001–02), allocated \$1.5 billion to natural resource management (NRM) and environmental activities. The second phase, NHT 2 (2002–03 to 2007–08), allocated \$1.3 billion for NRM activities. A third phase, NHT 3, with potential funding of \$2 billion, is planned to commence in 2008–09.

¹ State of the Environment Advisory Council, *Australia: State of the Environment*, Department of the Environment, Sport and Territories, 1996, p. 4–55. Subsequent reports have been published in 2001 and 2006.

² Standing Committee of Agriculture and Resource Management, *Managing Natural Resources in Rural Australia for a Sustainable Future: A discussion paper for developing a national policy*, December 1999, p. 1.

³ Where the audit findings refer to the Australian Government or Australian Government Ministers this relates to the period prior to the Federal Election held on 24 November 2007.

⁴ *Natural Heritage Trust of Australia Act 1997*, s. 3, p. 3.

4. The NAP was established in 2000–01. Funding of \$700 million across eight years was allocated to the Department of Agriculture, Fisheries and Forestry (DAFF) for the program. The goal of the NAP is to address dryland salinity as well as improved water quality. The NAP has not been renewed beyond June 2008; its focus will be subsumed within NHT 3.

The regional delivery model

5. A regional focus was selected by the Australian Government for the NHT 2 and the NAP as it offered a framework for NRM planning and action that suited the specific circumstances of different regions and allowed the social, economic and environmental dimensions to be considered in an integrated way. Further, a regional focus was also considered by the departments to be the most suitable for determining priorities, sharing investment arrangements and for coordinating actions over a large area involving many people. Over half of the administered funds allocated to the NHT 2 and the NAP to June 2007 (that is, some \$1 billion) have been spent through 56 regional bodies across Australia.

6. Bilateral agreements were signed between the Australian Government and the State/Territory governments, setting out the governance, financial management, monitoring and reporting responsibilities of each party. The State/Territory governments have signed partnership agreements with the relevant regional bodies regarding the delivery of these responsibilities. Regional bodies have developed plans and investment strategies to show how the programs will be delivered ‘on the ground’. These plans and strategies were designed to be accredited and subsequently approved at the national and State/Territory level in order to receive ongoing funding.

Audit scope and objectives

7. The objective of this audit was to assess and report on the administration of the regional delivery of NHT 2 and the NAP.

8. The scope of the audit encompassed both Environment and DAFF, including the Joint Team of staff from both departments working together under a common management structure for the delivery of both programs. The audit focused on:

- the implementation of the regional delivery arrangements;
- governance and financial management for regional delivery; and

- monitoring, evaluation and reporting on the programs' performance.

Previous audits

9. The Australian National Audit Office (ANAO) has examined the effectiveness of the administration of the NHT and/or NAP programs in four previous audit reports:

- Audit Report No.36, 1996–97, *Commonwealth Natural Resource Management and Environment Programs*;
- Audit Report No.43, 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*;
- Audit Report No.17, 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*; and
- Audit Report No.31, 2006–07, *The Conservation and Protection of National Threatened Species and Ecological Communities*.

10. The implementation of the relevant recommendations and findings from these audits are discussed in the key findings and in the following chapters of this report.

Conclusion

11. The regional delivery model for the NHT 2 and the NAP was based on consideration of the views of a wide range of stakeholders and the lessons learned from the program evaluations conducted by the Joint Team comprising staff from both Environment and DAFF. The rationale for regional delivery was to be more strategic and results-focused at a regional scale. This was supported by well designed bilateral agreements between the Australian Government and the States/Territories and a comprehensive planning and accreditation process based on the 'best available' science. Given the scale of the NRM challenge across Australia and past experiences, it was a reasonable model in the circumstances.

12. Progress in implementing improvements in administration following ANAO Audit Report No 17, 2004–05⁵ has been comprehensive and well-focused on significant risks. The Australian Government has been well supported by State Governments and regional bodies in improving

⁵ Australian National Audit Office, Audit Report No.17, 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*.

administration. Nevertheless, significant areas of non-compliance by State agencies with the bilateral agreements have been identified and will require attention leading into NHT 3. In particular, attention will need to be given to addressing the transparency and accountability of Australian Government funds managed by the States/Territories—particularly in terms of meeting the auditing requirements of the agreements and offsetting unspent funds remaining in State or Territory holding accounts.

13. The quality and measurability of the targets in the regional plans is an issue for attention and is being addressed in some States. This should be considered nationally—especially as the absence of sufficient scientific data has limited the ability of regional bodies to link the targets in their plans to program outcomes. Dissemination of good practice and, in particular, the documentation of the cost effectiveness of actions funded through the program will need to be a priority for NHT 3.

14. There is evidence that activities are occurring ‘on the ground’. For example, Environment’s *2006–07 Annual Report* commented that the programs have ‘helped to protect over eight million hectares of wetlands, have treated over 600 000 hectares of land to reduce salinity and erosion, and have involved some 800 000 volunteers in on-ground conservation work’.⁶ However at the present time it is not possible to report meaningfully on the extent to which these outputs contribute to the outcomes sought by government. There are long lead times for national outcomes and delays in signing bilateral agreements did not help this process. The absence of consistently validated data, the lack of agreement on performance indicators and any intermediate outcomes has significantly limited the quality of the reporting process.

15. Overall, the ANAO considers the information reported in the DAFF and NHT Annual Reports has been insufficient to make an informed judgement as to the progress of the programs towards either outcomes or intermediate outcomes. There is little evidence as yet that the programs are adequately achieving the anticipated national outcomes or giving sufficient attention to the ‘radically altered and degraded Australian landscape’ highlighted in the 1996 *Australia: State of the Environment* Report. Performance measurement has been an ongoing issue covered by three previous ANAO audits since 1996–97 and should be a priority for attention in the lead up to NHT 3.

⁶ The then Department of the Environment and Water Resources, *Annual Report 2006–07*, p. 5.

16. To assess progress made in this area, the ANAO will consider conducting a follow-up audit reporting to Parliament on progress towards achieving outcomes for NHT 3. Such an audit will be considered within the context of future Audit Work Programs.

Key findings by chapter

Implementation of the regional delivery model (Chapter 2)

Selecting the regional model

17. While not explicitly outlining the costs and benefits of alternative models, the rationale for the delivery of the NHT 2 and NAP was well supported by research and the results of evaluations. The documentation highlights the broad consultation and consideration that went into the design of the regional model. Australian and State/Territory Ministers at the time supported a more devolved, regional delivery approach for NRM programs.

The management of risks

18. At the commencement of the NHT 2 and the NAP there were formidable risks to the achievement of intended outcomes. In particular, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), in a report to the Joint Team in 2004, commented that the success of programs like the NHT depends on the knowledge and expertise of regional bodies. The Joint Team has introduced a range of measures to improve knowledge management. The NRM website <www.nrm.gov.au> includes the mosaic mapping project, which show, by region, activities and some of the lessons learned across different regions and landscapes. Community forums and the network of NRM facilitators and coordinators have also assisted in disseminating information. In addition, the Joint Team in association with Land and Water Australia has been working on improving knowledge management.⁷

19. However, many of these initiatives are being pilot tested or in the early phase of roll out. This makes it difficult to form an audit opinion at this stage. Nevertheless, the regions surveyed by the ANAO commented that there is still much to be done to improve the dissemination of lessons learned at the regional level. The ANAO considers that documentation of the economic costs and benefits of different 'on-ground' actions needs to be substantially

⁷ Land and Water Australia is a research and development corporation within the Agriculture, Fisheries and Forestry Portfolio.

improved. There is still little information as to what options are best to deliver value for money outcomes. This leaves substantial residual risks at the end of the NHT 2 and the NAP and leading into the NHT 3.

Bilateral agreements

20. Agreements were negotiated and signed bilaterally between the Australian Government and each State/Territory Government to provide the management framework for the NHT 2 and the NAP. The agreements were well designed and provide a good basis for agreements under NHT 3. However, negotiations were often protracted and, consequently, this affected the timeliness of the implementation of the programs. The delays in reaching agreement had unfortunate consequences for some regions in existence prior to NHT 2. Staff members were laid off and regional bodies were downsized. This is a risk under the transitional period for NHT 3. However, the Joint Team has indicated that they are aware of the problem and are working with the States and Territories to ensure that agreements are in place as soon as possible for NHT 3.

21. Negotiations over the content of the bilateral agreements also resulted in some differences between agreements. For example, the agreement signed between the Queensland and Australian Governments includes a special arrangement where, unlike all other States/Territories, the Queensland Government is not required to offset any interest earned on funding. To avoid any suggestion that some States/Territories have been given preferential treatment, it is desirable that all provisions are as consistent as possible in the bilateral agreements for NHT 3.

Regional planning and accreditation

22. Currently, 55 of the 56 regions delivering the NHT and NAP have plans accredited by the Australian Government.⁸ The regional model has not suited all regions as illustrated by the difficulties in establishing a regional body and an accredited plan for the Cape York region. However, in the majority of cases where accreditation has occurred for regional plans, there have been shortcomings. In 2004, the CSIRO noted that regardless of whether or not proposed targets were underpinned by scientific knowledge and experimentation, there was little information forthcoming that suggested that

⁸ Through the development of accredited regional plans, the Australian Government, and State and Territory governments agreed to support integrated NRM across Australia. These plans identified regional priorities and established a framework for investment in action.

targets, even if met, would be sufficiently robust to arrest or reverse the decline in catchment condition in many areas. Regions surveyed by the ANAO in 2007 also commented on the lack of adequate scientific data. Of the 50 regional bodies that responded, only 12 (24 per cent) agreed that the level of scientific knowledge and technical data available had been adequate for developing plans, investment strategies and measurable regional targets. An analysis of the accredited regional plans of eight regional bodies by the ANAO found that 80 out of 163 resource condition targets identified in the plans did not meet the stated criteria in terms of being measurable or having a specific timeframe.⁹

23. In New South Wales, Victoria and South Australia there are processes in train to improve the targets set out in regional plans. The ANAO recognises that it was no easy task to develop high quality regional plans in the absence of quality data or prior research. However, tackling NRM challenges such as dryland salinity require strong collaborative efforts at all levels (national, regional and local) if resources are to be well targeted and used effectively. It will be important that all regional plans in all States and Territories are of sufficient quality to provide an assurance that program outcomes are likely to be achieved from the Australian Government's potential allocation of \$2 billion for NHT 3.

Regional investment strategies

24. In terms of the allocation of funds under the programs, over \$1 billion has been outlaid for regional investments through the NHT 2 and NAP to June 2007. The investment was directed towards activities such as salinity mitigation works, revegetation and rehabilitation of native vegetation, pest animal and plant controls, improving rivers and waterways and recovery plans for threatened species. There is documentation to support reasons for investment decisions. These decisions are based on merit and linked to the criteria. Nevertheless, the ability of regions to quantify what the investments will achieve against program outcomes is constrained by the absence and general nature of some targets and the lack of relevant monitoring and/or modelling systems. Consequently, it is difficult to compare value for money from investments across regions. Where the impact on resource condition is identified by regional bodies, the expected results were often low (frequently

⁹ This finding is supported by a recent report from the Victorian Catchment Management Council which found that of the 530-plus resource condition targets in Victorian regional catchment strategies, few were specific, measurable, achievable, realistic or time-related. Victorian Catchment Management Council, *Catchment Condition Report*, 2007, p. 13.

less than one per cent of the longer-term resource condition target). This suggests that the achievement of some outcomes is going to be a long-term process—potentially over two hundred years at current progress.

Governance and financial management (Chapter 3)

National review of governance arrangements

25. The governance arrangements for the regional delivery of the NHT 2 and the NAP are inherently complex and challenging because of the number of organisations involved in service delivery. However, administrative arrangements have been subject to substantial review and improvement since the issue was raised in the ANAO's Audit Report No.17, 2004–05. Improvements have included formalising arrangements, independent evaluation and the development of a regional governance checklist. The Australian Government's NRM Joint Team, State agencies and particularly State Audit Offices have all played a part in improving administration for the delivery of funding for NRM.

Improving governance arrangements

26. Processes such as the Business Improvement Review in Queensland have enabled the effective evaluation of regional administration structures and practices. State agencies and State audit offices in Western Australia, New South Wales and Victoria have also assisted in improving governance in regional bodies. In addition, regional boards have demonstrated that they are monitoring the use of NHT/NAP funds. For example, when a case of fraud was detected, it was the regional board that identified the problem and took the appropriate action.

27. While significant improvements have been made, substantial risks remain, which will require ongoing management efforts by all relevant parties. In particular, the integration of the local NHT investment stream (through programs such as *Envirofund* which is delivered directly from the Australian Government) could be strengthened. Currently, outputs from the local investment stream are not provided to regional bodies. This means that regions are effectively unable to incorporate the program results from local investment stream programs into their regional monitoring and reporting processes. The Joint Team has indicated to the ANAO that it is currently working closely with regions to develop a process for providing outputs data to them in a meaningful and useful format.

Financial management

28. Good cash flow management practice is important for the success of the programs. The correct timing of payments is crucial as payments made too early are an unnecessary cost to the Australian Government. However, payments made too late risk delaying the program results and put considerable strain on the financial capacity of regional bodies that are dependent upon external program funds.

29. The bilateral agreements require the Australian Government and State/Territory governments to pay the cash funding contributions into a Single Holding Account (SHA) prior to being forwarded to regional bodies. Each SHA is administered by the relevant State or Territory agency but oversighted by the relevant Joint Steering Committee (JSC) comprised of Joint Team and State/Territory officials. Consequently, the Joint Team as well as the State agency is required to authorise payments from the SHA to the regions.

30. Significant delays in payments continue to be an ongoing issue at the time of this audit. In 2005–06, the elapsed time from the start of the financial year for payments into the SHAs varied from 53 days for Tasmania to 271 days for Victoria. These delays have also contributed unnecessarily to an insolvency risk for 13 regional bodies. The Joint Team is proposing to introduce more streamlined financial management practices for NHT 3. These measures are likely to improve on current practices. However, the ANAO considers that stronger monitoring is needed to manage and mitigate the risk of payments being delayed to the regions and funds accumulating in State/Territory accounts.

Compliance with the financial provisions of the bilateral agreements

31. The bilateral agreements contain a range of principles and controls relevant to payments made through the programs. These include transparency in financial transactions, control of payments through the JSCs, requirements for audited financial statements and offsetting unspent funds. Significant breaches of the bilateral agreements have been identified. These include examples of particular States/Territories:

- not maintaining a transparent SHA;
- releasing program funds from the single holding account without appropriate approvals;

- not providing audited financial statements (acquittals) to indicate that funds have been spent for their intended purposes;
- retaining unspent NHT 1 funds (valued at \$6.1 million) rather than offsetting them against NHT 2 allocations; and
- not disclosing interest earned from a single holding account or its use in accordance with the bilateral agreements.

32. In this light, it is evident that these matters should be addressed and stronger controls implemented to achieve greater compliance with the bilateral agreements for NHT 3. Otherwise, the value and credibility of bilateral agreements is compromised. There would also be benefit in standardising the presentation of regional bodies' financial statements for comparability and analysis and improved disclosure regarding the use of Australian Government funds.

Monitoring, evaluation and reporting on performance (Chapter 4)

Significance of monitoring, evaluation and reporting

33. Performance monitoring, evaluation and reporting are essential for determining the extent to which agencies' outputs and administered items contribute to the achievement of the program outcomes. ANAO audits in 1996–97, 2000–01 and again in 2004–05 found weaknesses in the monitoring and reporting of the performance of the NHT. In summary there was no effective outcomes reporting. The departments agreed to the recommendations to develop and implement measures, systems and processes to improve performance in this area.

Framework for measuring the program's performance

34. In 2002, the NRM Ministerial Council endorsed a *National NRM Monitoring and Evaluation Framework*. The framework is generally sound and provides a reasonable basis for measuring and reporting on performance. However, the implementation of the framework has been stalled by the lack of agreement to appropriate performance indicators. Of the 61 indicators identified, only seven have been agreed by Australian Government and State/Territory officials. As a result, there is insufficient information to make an informed judgement as to the progress of the programs towards either intermediate or longer-term outcomes. The indicators are not expected to be in place until June 2008—the completion date for NHT 2 and the NAP—after which baseline data is intended to be established. Consequently, the overall

impact of the programs on NRM will not be known when the NHT 2 and NAP are finished in June 2008. Full implementation may take longer again.

Implementation of the framework

Data validation

35. In the 2000–01 audit, the ANAO found significant weaknesses in relation to the validity of the output data reported. The data was a mix of actual and anticipated results. In 2004–05, the ANAO also noted that performance information still included estimates of performance. Since that time the Joint Team has developed a standardised output reporting system that reflects actual data from the regions. This is a positive development since 2004–05.

36. However, the data validation is limited to a desk-top review. From a sample of nine regions, the ANAO concluded that regional bodies do engage in some form of validation. This ranged from spot checks to independent audits of a sample of projects. Greater assurance of the accuracy of output data would be provided if all regional bodies validated the output data to a consistent standard before it is reported to the JSC and the Joint Team. Guidance from the Joint Team to the regions on matters such as the statistical validity of the sample, the level of acceptable risk and the appropriate methodologies for validating particular types of outputs prior to the introduction of NHT 3 would contribute positively to the quality of data being reported.

Improving performance in data and systems management

37. Currently, there are many different systems in place in the States/Territories and regions with the inherent duplication and inefficiency problems this brings.

38. During the course of the audit the Joint Team committed \$2.2 million to a *Building Better Data* project with the intention of improving performance reporting processes for NHT 3. The project also aims to improve information management systems for performance reporting by reviewing and streamlining performance reporting. This will include an assessment of the appropriateness of data currently collected, the effectiveness and efficiency of information management systems currently employed and the use of data. The ANAO considers that priority should be given to effectively implementing this initiative and having it in place prior to the introduction of NHT 3.

39. It is particularly important that progress against outcomes is measured and reported, and lessons learned documented. Establishing clear and precise business rules would assist in better integrating systems and reducing the transaction costs of performance reporting.

Program evaluations

40. The evaluations of key aspects of the NHT and NAP programs were fair and balanced and provided a good basis for improving the efficiency of the delivery of the programs. However, the evaluations were not able to report conclusively on the effectiveness of NHT 2 and the NAP. At the time of the evaluations there was little evidence that there has been any substantial movement towards landscape scale repair and replenishment of natural resources as envisaged by the NHT. Nor was there evidence of significant progress towards preventing, stabilising and reversing salinity trends as envisaged by the NAP. From the evidence reviewed as part of this audit, this is still the case which suggests that stronger targeting of NHT 3 towards the highest priorities and most critical national assets is necessary to achieve measurable results.

Performance reporting

41. Reporting has largely focused on activities and outputs rather than progress towards outcomes. Further, DAFF's *Annual Report 2005–06* reported intended outcomes rather than actual results. The NHT annual report for 2005–06 was tabled in November 2007—eleven months after the statutory deadline. The Joint Team has indicated that this delay is not likely to be repeated in subsequent years.

42. In 2000–01, the ANAO recommended the implementation of intermediate outcomes¹⁰ as an integral part of accountability arrangements for the NHT and future NRM and environment programs. This was agreed by the Joint Team. However, at present, the use of intermediate outcomes is at a very early stage and is not currently operational for reporting purposes. Through the *Building Better Data* project, the Joint Team intends to develop and trial a 'performance story reporting' methodology for reporting on outcomes. A performance story report will summarise a 'slice' of an NRM project indicating what a program has achieved as well as how the achievements were made.

¹⁰ Intermediate outcomes are stepping stones towards the ultimate outcomes. They focus on the medium term—that is, one to five years.

43. The intention from the Joint Team is that ‘performance stories will provide a summary of the impacts and progress towards outcomes’. A key priority for the Joint Team will be to demonstrate the cost effectiveness of NRM actions and report to Parliament through this process. This is particularly important where investment has been directed to the conservation of critical national assets such as wetlands of international importance, the soils and water quality in the Murray-Darling Basin or protection for the Great Barrier Reef from pollution.

44. The ANAO recognises the difficulties faced by the Joint Team in establishing such a process at this point in time given that the regional bodies have a diverse range of systems focused on addressing their own reporting needs. However, such a process will be necessary if any meaningful results are to be reported for NHT 3. The ANAO considers that a staged approach may best address the practicalities of implementation of such a framework. The first step must be reaching agreement on reasonable and measurable indicators. This could be followed by a pilot study in regions that have already undertaken data verification and outcomes measurement and reporting. When the performance monitoring and reporting model is providing a reasonable assessment of outcomes, it could be extended for the remaining regions.

Summary of Environment and DAFF response

45. The Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry broadly accept the key findings of the report, noting that there have been further developments since it was prepared, including the development of a comprehensive outcomes-based reporting framework and a revised Monitoring, Evaluation, Reporting and Improvement national framework which support practice change in line with the key recommendations. The report acknowledges that ‘progress in implementing improvements in administration since the previous Audit report’ has been comprehensive and well-focused on significant risks but that further work in this area is required leading into the next Natural Heritage Trust (NHT 3) program. Issues raised in the ANAO report and its four recommendations will continue to be taken into account in any future arrangements for regional delivery of natural resource management programs.

46. The regional delivery model is still relatively new and the Departments in partnership with state and territory governments and regional bodies have continually sought to improve the model over time. Given the scope of this

exercise and the large number of players involved this will take time. Actions are currently underway to improve monitoring and evaluation of outcomes and sharing the knowledge legacy of the programs, such as strengthening the measure of intermediate outcomes through utilising reports by outcomes (Performance Story Reports).

47. The Departments note that the audit findings are positive with regard to the general approach to regional delivery with targeted recommendations to improve certain aspects that will benefit future regional delivery of natural resource management programs. The Audit report notes that program delivery arrangements have evolved and are now, on the whole working well. However, the Departments agree that there are some areas that could be strengthened. The report is, overall, a reasonable assessment of the strengths of current arrangements and those areas which require further attention.

Recommendations

Recommendation No. 1

Paragraph 2.16

To strengthen the management of risks to program outcomes, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry give priority to documenting and disseminating information regarding:

- (a) the cost-effectiveness of investments in achieving results; and
- (b) lessons learned or insights into quantifiable benefits or unintended consequences from NRM investments.

Agencies' response: Agreed

Recommendation No. 2

Paragraph 3.43

To provide greater transparency and efficiency in the management of funds for regional investments, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry, in developing bilateral agreements for the Natural Heritage Trust (NHT 3) or similar programs:

- (a) clearly define the authority of the Joint Steering Committees over the release of funds and the management of Single Holding Accounts; and
- (b) streamline payments to regional bodies based on performance requirements set out in the agreed investment strategies.

Agencies' response: Agreed

**Recommendation
No. 3**

Paragraph 3.56

To address compliance with bilateral agreements, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry give greater priority to monitoring compliance with agreements and encouraging State/Territories to:

- a) provide audited financial statements (acquittals) to indicate that funds have been spent for their intended purposes;
- b) return unspent funds remaining in State/Territory single holding accounts or offset these against future allocations; and
- c) disclose interest earned and its use in accordance with the bilateral agreements.

Agencies' response: Agreed

**Recommendation
No. 4****Paragraph 4.52**

To enable accurate reporting of progress against outcomes to be achieved in the Natural Heritage Trust or similar programs, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry develop and implement a performance measurement framework that includes:

- (a) a finalised list of core performance indicators to measure actual results;
- (b) clear and consistent business rules supporting the collection and collation of performance data;
- (c) dissemination of guidance to regional bodies regarding the validation of natural resource management output data; and
- (d) meaningful intermediate outcomes that may be used to demonstrate the cost effectiveness of natural resource management actions, the conservation of major national assets and behavioural change achieved through the programs

Agencies' response: Agreed

Audit Findings and Conclusions

1. Background

This chapter provides an introduction to the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality. The chapter also outlines the audit objective, scope and methodology.

Introduction

1.1 Australia's environmental and productive natural resources are among its most precious assets as they provide food, clean water and materials to support our quality of life. Natural resources also provide habitat for our unique plants and animals and the landscape that helps to define our image of Australia.

1.2 In 1996, the *Australia: State of the Environment* report noted that:

[European settlement] has resulted in the introduction of many practices that...have radically altered and degraded much of the Australian landscape...[Improvements in natural resource condition] will come about only with substantial changes in the way that land and ocean are managed. Clearly, many current practices are not sustainable and biodiversity-based industries such as agriculture, forestry, fisheries and tourism often erode the resources upon which they depend.¹¹

1.3 The way that natural resources are used and managed is fundamental to the long-term economic viability of the agricultural sector as well as the wellbeing of current and future generations of Australians.¹²

Natural resource management programs

1.4 To better manage the use of Australia's natural resources, the Australian Government has implemented two natural resource management (NRM) programs, the:

- Natural Heritage Trust (NHT); and
- National Action Plan for Salinity and Water Quality (NAP).

¹¹ State of the Environment Advisory Council, *Australia: State of the Environment*, Department of the Environment, Sport and Territories, 1996, p.4–55. Subsequent reports have been published in 2001 and 2006.

¹² Standing Committee of Agriculture and Resource Management, *Managing Natural Resources in Rural Australia for a Sustainable Future: A discussion paper for developing a national policy*, December 1999, p. 1.

The Natural Heritage Trust

1.5 The *Natural Heritage Trust of Australia Act 1997* (the Act) states:

The Parliament of Australia recognises the need for urgent action to redress the current decline, and to prevent further decline, in the quality of Australia's natural environment. There is a national crisis in land and water degradation and in the loss of biodiversity...There is a need to integrate the objectives of environmental protection, sustainable agriculture and natural resources management consistent with the principles of ecologically sustainable development...¹³

1.6 The Act established the NHT, which was to be a comprehensive, integrated program to *conserve, repair and replenish Australia's natural capital infrastructure*.¹⁴ The NHT's objectives are:

- biodiversity conservation—the conservation of Australia's biodiversity through the protection and restoration of terrestrial, freshwater, estuarine and marine ecosystems and habitat for native plants and animals;
- sustainable use of natural resources—the sustainable use and management of Australia's land, water and marine resources to maintain and improve the productivity and profitability of resource based industries; and
- community capacity building and institutional change—support for individuals, landholders, industry and communities with skills, knowledge, information and institutional frameworks to promote biodiversity conservation.¹⁵

1.7 The Department of the Environment, Water, Heritage and the Arts (Environment) has been responsible for delivery of two phases of the NHT.¹⁶ The first phase, NHT 1 (1996–97 to 2001–02), allocated \$1.5 billion to NRM and environmental activities. The second phase extended the program until 2006–07. The Australian Government allocated \$1 billion for national, regional and local level NRM activities. This funding was to be matched by State/Territory

¹³ *Natural Heritage Trust of Australia Act 1997*, Preamble, p. 1.

¹⁴ *Natural Heritage Trust of Australia Act 1997*, s. 3, p. 3.

¹⁵ Natural Resource Management Ministerial Council, *Framework for the Extension of the Natural Heritage Trust*, Australian Government, October 2002, p. 1.

¹⁶ The Department of the Environment, Water, Heritage and the Arts was previously known as the Department of the Environment and Water Resources under the former Administrative orders.

governments. The 2004 Federal Budget included a further \$300 million to extend NHT 2 until 30 June 2008. In 2007, the Australian Government committed a further \$2 billion to extend the NHT program (NHT 3) until 2012–13.

The National Action Plan for Salinity and Water Quality

1.8 The NAP is administered by the Department of Agriculture, Fisheries and Forestry (DAFF). It was established in 2000–01 with funding of \$700 million allocated over eight years¹⁷ to motivate and enable regional communities to:

- use coordinated and targeted action to prevent, stabilise and reverse trends in dryland salinity affecting the sustainability of production, the conservation of biological diversity and the viability of infrastructure; and
- improve water quality and secure reliable allocations for human uses, industry and the environment.¹⁸

1.9 As with NHT 2, the State/Territory governments were expected to match (with cash or in-kind contributions) Australian Government funding. The NAP has not been renewed beyond June 2008; its focus will be subsumed within NHT 3.

The regional delivery model

1.10 A regional focus was selected for NHT 2 and the NAP as it offered a framework for NRM planning and action that suited the specific circumstances of different regions and allowed the social, economic and environmental dimensions to be considered in an integrated way. Further, a regional focus was also considered the most suitable for determining priorities, sharing investment arrangements and for coordinating actions over a large area involving many people.¹⁹ Over half of the administered funds allocated to the NHT 2 and the NAP to June 2007 have been spent through 56 regional bodies

¹⁷ This takes into account rephasing of expenditure because of underspends in the early years of the program. This expanded the time frame for the program from seven to eight years.

¹⁸ Council of Australian Governments, *A National Action Plan for Salinity and Water Quality*, Australian Government, 2000, p. 5.

¹⁹ Standing Committee of Agriculture and Resource Management, *op. cit.*, p. 33.

across Australia.²⁰ The distribution of funding across Australia, largely based on the regional bodies' plans and related investment strategies, is shown in Table 1.1.

Table 1.1

Cumulative Australian Government NHT 2/NAP funding to each State/Territory as of 30 June 2007

State/Territory	No. of regions	NHT 2 (\$m)	NAP (\$m)	Total investment (\$m)
New South Wales	13	121.6	162.6	284.2
Victoria	10	102.5	130.6	233.1
Queensland	14	105.9	67.9	173.8
Western Australia	6	86.6	101.2	187.8
South Australia	8	56.9	76.0	132.9
Tasmania	3	30.3	4.3	34.6
Northern Territory	1	26.9	1.6	28.5
Australian Capital Territory	1	5.6	1.3	6.9
Total	56	536.3	545.5	1081.8

Source: ANAO analysis of Joint Team data

1.11 To streamline delivery of NHT 2 and the NAP, DAFF and Environment have combined the administrative staff from each program into a single team (the Joint Team). This arrangement provides stakeholders with a single point of contact. DAFF and Environment signed a Memorandum of Understanding (MOU) in February 2006 to support these arrangements. The focus of this audit is the administration of the NHT 2 and NAP funds directed through the regional delivery model. The implementation of the regional delivery model is discussed in Chapter Two.

Governance framework of the regional delivery model

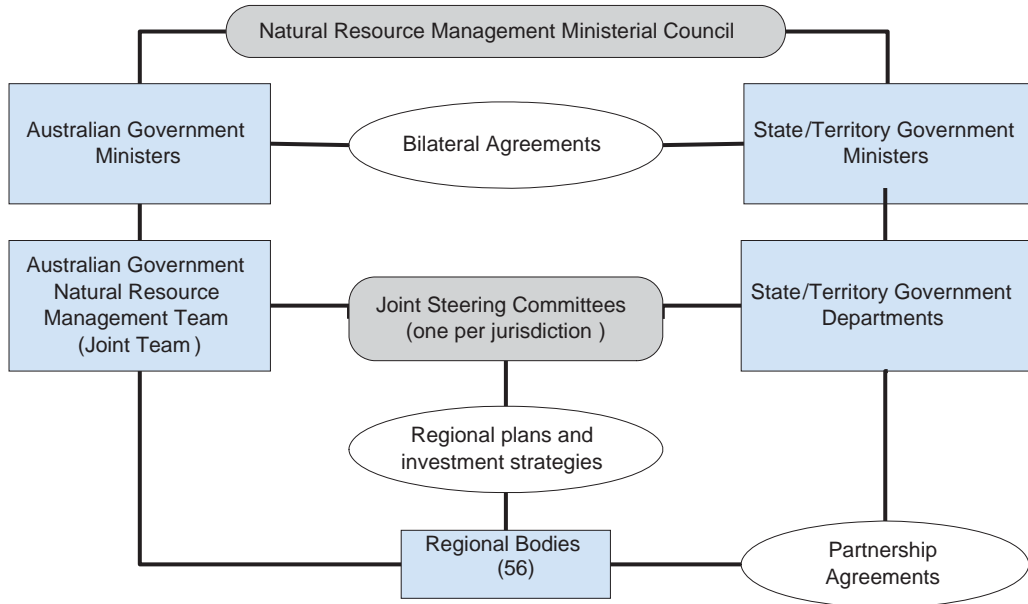
1.12 The governance framework supporting the large number of parties directly involved in the regional delivery model—Ministers from the Australian and State/Territory governments, DAFF, Environment, six State and

²⁰ The remainder of the NHT/NAP program funds are allocated through national or local investment streams including through direct discretionary grant programs such as *Envirofund* which provides funding for local environmental and NRM projects.

two Territory departments, eight Joint Steering Committees (JSCs) and 56 regional bodies—is illustrated in Figure 1.1.

Figure 1.1

The governance framework for regional delivery of NHT 2 and the NAP



Source: ANAO

1.13 The overarching framework for NRM program delivery is set out by the NRM Ministerial Council. The council consists of the Ministers responsible for primary industries, natural resources, environment and water policy.

1.14 Key decisions for NHT 2 and the NAP are made by Australian and State/Territory government Ministers. This responsibility is supported by the Joint Steering Committees (JSC). Each JSC consists of senior officials from the Australian Government and from the relevant agencies in each of the States and Territories. There is one JSC per jurisdiction.

1.15 The bilateral agreements signed between the Australian Government and the State/Territory governments set out the administrative, financial management, monitoring and reporting responsibilities of each party. The State/Territory governments have signed Partnership Agreements with the relevant regional bodies regarding the delivery of these responsibilities.

1.16 Regional bodies develop plans and investment strategies to show how the programs will be delivered ‘on-the-ground’. These plans and strategies must be approved at each level in order to receive funding.

1.17 Governance and financial management of the regional delivery model is discussed in Chapter Three. Monitoring, evaluation and reporting on performance through the regional delivery model is discussed in Chapter Four.

Previous ANAO audits

1.18 The Australian National Audit Office has examined the effectiveness of the administration of the NHT and/or NAP programs in four previous audit reports:

- Audit Report No.36, 1996–97, *Commonwealth Natural Resource Management and Environment Programs*;
- Audit Report No.43, 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*;
- Audit Report No.17, 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*; and
- Audit Report No.31, 2006–07, *The Conservation and Protection of National Threatened Species and Ecological Communities*.

1.19 Relevant findings from these audits are discussed as appropriate throughout this report.

Audit objective, scope and methodology

Audit Objective

1.20 The objective of this audit was to assess and report on the administration of the regional delivery of NHT 2 and the NAP.

Audit scope

1.21 The scope of the audit encompassed both Environment and DAFF and their roles in administering the regional delivery model through the Joint Team. The audit focused on:

- the implementation of regional delivery;
- governance and financial management; and

- monitoring, evaluation and reporting on performance.

Audit methodology

1.22 During the audit, the ANAO:

- reviewed relevant Australian Government program and project files, annual reports, websites and publications;
- interviewed Australian Government staff and staff from nine regional bodies;
- reviewed regional bodies' financial statements, annual reports, regional plans and investment strategies;
- consulted with government agencies in Victoria, Queensland and Western Australia, the Offices of the Auditors-General of New South Wales, Victoria, Western Australia and South Australia as well as specific stakeholders including State NRM facilitators, academics, practitioners and two environmental conservation organisations; and
- participated in an inter-agency round table with a range of government officials organised by the Natural Resources Commission (NRC) in New South Wales.

1.23 All 56 regional bodies involved in program delivery were surveyed for the audit. The ANAO received responses from 50 of the 56 regional bodies. The aggregated responses are provided in Appendix 1. In addition, regional bodies' responses have been included in the body of the audit where appropriate.

1.24 A consultant, Caroline Spencer, was engaged to assist the audit team with the analysis of accounting and financial management matters.

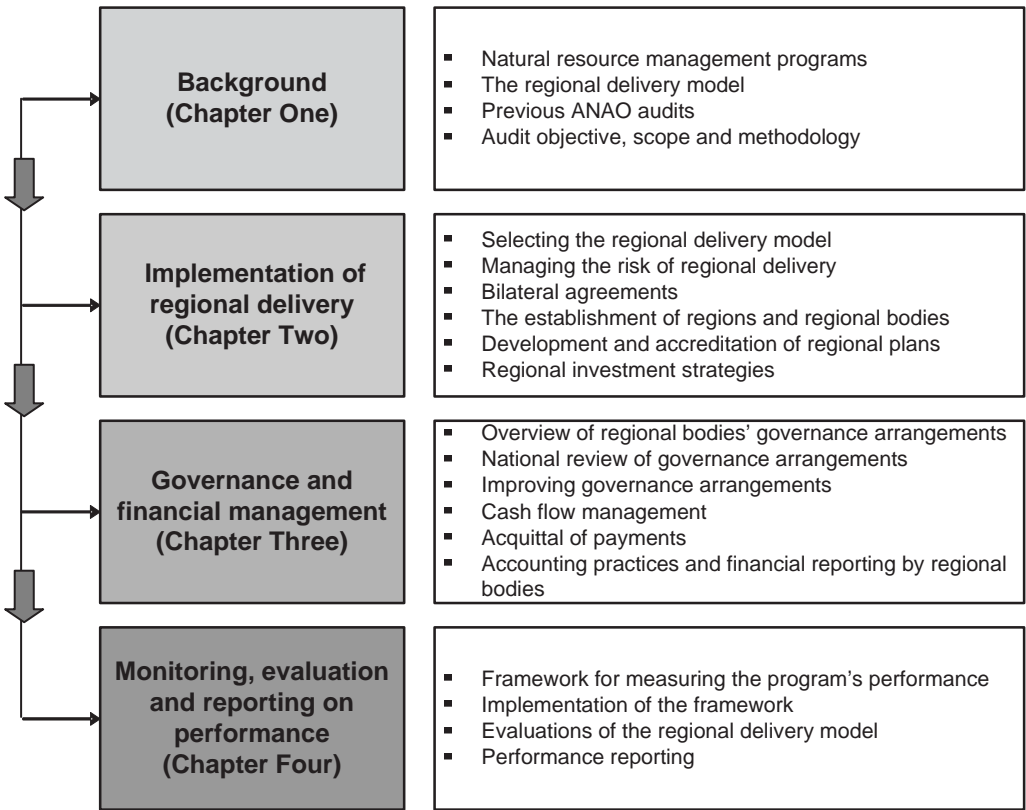
Audit Conduct

1.25 The audit was conducted in accordance with the ANAO Auditing Standards. The audit commenced in February 2007 and fieldwork was generally conducted between April and August 2007. The total audit cost was \$431 000. Where the audit findings refer to the Australian Government or Australian Government Ministers this relates to the period prior to the Federal Election held on 24 November 2007.

Report Structure

Figure 1.2

The structure of the report is illustrated below.



2. Implementation of Regional Delivery

This chapter reviews how the regional delivery model was determined for the NHT and NAP programs and how the various arrangements needed to implement the model were established.

Introduction

2.1 While many aspects of the NAP and NHT 2 evolved from NHT 1, regional planning and delivery required consideration of risks and clarification of the roles and responsibilities of the parties involved. In addition, the regional focus required regional bodies to be established and plans and investment strategies to be developed. Experience shows that optimal outcomes from policy initiatives are more likely to be obtained when there is early and systematic consideration of the practical aspects of implementation.²¹

2.2 The ANAO reviewed how the regional delivery model was selected as well as the implementation of the components necessary to deliver the NAP and NHT 2 through this model.

Selecting the regional delivery model

2.3 The basis for moving to a regional delivery model came from a number of sources. The mid-term review of NHT 1 commissioned by the Australian Government in 1999 was particularly important. The review was comprehensive, comprising 28 separate reports and over 600 individual recommendations. The review commented that:

...contemporary approaches to NRM require comprehensive strategies at both the national and regional level to develop new sustainable land use and land management systems that will help meet environmental, economic and social goals.²²

²¹ Australian National Audit Office and the Department of the Prime Minister and Cabinet, *Better Practice Guide: Implementation of Programme and Policy Initiatives*, 2006, p. 1.

²² Joint Team, *Mid-term Review of the Natural Heritage Trust: Review of Administration*, November 1999, p. 5.

2.4 Particular concern was noted about the lack of planning and priority setting for biodiversity conservation. The review commented:

More effort could be devoted to comprehensive regional plans in high priority areas. These plans should be focused on natural resource management overall and provide blue prints for action.²³

2.5 Two major policy papers also supported the regional delivery of NRM programs. *Managing Natural Resources in Rural Australia for a Sustainable Future: A discussion paper for developing a national policy* developed key policy directions and was underpinned by a proposal for collaborative, more strategic investment in NRM at the regional level.²⁴ The paper was prepared in 1999 by Australian, State and Territory government agencies in collaboration with a reference group of landholders, rural community leaders, scientists and industry and conservation interests. The paper elicited 500 written submissions and hundreds of verbal comments from a wide range of stakeholders. There was strong stakeholder support for a regional approach. The second report, *The Management of Dryland Salinity: Future Strategic Directions* reviewed existing policy frameworks for NRM.²⁵ The report commented that:

A number of key challenges face the future management of dryland salinity in Australia. On the one hand, emerging opportunities such as commercial plantations and farm forestry present important opportunities for integrating rural and regional development opportunities with changes in land and natural resource management to address dryland salinity. On the other hand, significant barriers to change, such as the lack of industry and community engagement and the scale of change required, still exist. A new strategic direction is required for the future management of dryland salinity in Australia.

2.6 Ministers were advised of the benefits of a more collaborative approach to regional delivery and of stakeholder support for this change. Ministers supported the proposal for a more devolved, regional delivery approach for NRM programs.²⁶ Consequently, while there was no systematic assessment of

²³ op cit., p. 91.

²⁴ Steering Committee Report to the Agricultural and Resource Management Council of Australia and New Zealand and the Australian and New Zealand Environment and Conservation Council, *Managing Natural Resources in Rural Australia for a Sustainable Future: A discussion paper for developing a national policy*, December 1999.

²⁵ Standing Committee on Agriculture and Resource Management, Report No.78, *The Management of Dryland Salinity: Future Strategic Directions*, SCARM, 2000.

²⁶ Environment Australia, *Mid-term review of the Natural Heritage Trust: the response*, 2000, p. 8.

the costs and benefits of alternative delivery mechanisms, the delivery model was based on lessons learned from the earlier NHT 1 and widespread consultation with stakeholders.

Managing the risk of regional delivery

2.7 The management of risk is an integral part of the prudent administration of any program where public funds are involved. NHT 2 and the NAP had substantial risks due to the large number of parties involved in program delivery, the scale of the outcomes anticipated and the uncertainties over the level and type of intervention required to achieve the program outcomes. Ministers were advised of some of the potential risks in the early development of both the NAP²⁷ and NHT 2.

Development of a risk management plan

2.8 Programs should include a framework for identifying and cost-effectively treating or minimising the risks that may adversely affect a program's outcomes. The most recent version of the programs' risk management plan was developed for 2006–07. This comprehensively covers the NHT 2 and NAP investments. The ANAO reviewed the plan and considers it to be well structured and appropriate to the risks. The plan covers four key areas of risk as shown in Table 2.1.

Table 2.1

Key areas of risk and examples of risks identified

Key area of risk	Example of risk identified
Financial risks	Financial reporting will not demonstrate a return on the Government's investment.
Strategic risk	Failure to learn and communicate lessons on program delivery and governance (internally and externally).
Operational risks	Performance measures fail to demonstrate measurable program outcomes (inability to demonstrate resource condition change).
Information and knowledge management	Information, lessons learned and better practice are not disseminated amongst shareholders.

Source: ANAO analysis of Joint Team's 2006–07 Risk Management Plan

²⁷ Australian National Audit Office, Audit Report No.17 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*, p. 38.

2.9 The risks identified under each key area reflected the findings of previous ANAO audits, internal audits and other reviews and evaluations. For each risk identified, the plan documented: the scale at which the risk is present (national regional and local); how significant the risk is; how the risk was identified; actions recommended to address the risk; and the area responsible for undertaking the actions and what action has been taken. Further, the plan identifies the residual risk remaining and the likelihood and consequences of realising the risk.

2.10 The Joint Team advised that they are currently working on risks associated with the transition to NHT 3 and are looking at ways to improve alignment of the risk management plan with better practice in risk management.

Application of the risk management plan—knowledge management

2.11 The ANAO reviewed the implementation of the actions recommended in the risk management plan. In each case, steps have been taken to address the risks identified. For example, one risk identified in the plan was ‘the lack of dissemination of information, lessons learned and better practice amongst stakeholders’. The importance of managing this risk is highlighted by the Commonwealth Scientific and Industrial Research Organisation (CSIRO). In its 2004 report to the NRM Ministerial Council, CSIRO commented that:

...the success of the programs depended on the knowledge and expertise of [the regional bodies]. As such, focus should be given to strengthening knowledge transfer...²⁸

2.12 The Joint Team has endeavoured to address this risk through measures such as forums for the NRM community and for NRM facilitators and coordinators. In addition, an NRM website (www.nrm.gov.au) has been developed, which includes information such as the *Mosaic Map* project which shows, by region, activities being undertaken. The map is intended to capture lessons learned at the regional level and make this information publicly available to other regional bodies and interested parties.

2.13 In response to the ANAO’s survey question regarding the availability of information about successful and unsuccessful initiatives, regional bodies’ responses reflected a range of experiences. A number of regional bodies

²⁸ CSIRO and Bureau of Metrology, *Scientific Advice on Natural Resource Management: A Report to the Natural Resource Management Ministerial Council*, February 2004, p. 48.

commented positively on initiatives such as the *Mosaic Map*. Others commented that this information was not shared effectively. For example one region commented that:

We do not share knowledge or products well and this is the single biggest weakness of the regional model.

2.14 In October 2007, the first part of a new initiative, the *Knowledge for Regional NRM Programme*, was released. The program, which is a joint venture between the Joint Team and Land and Water Australia, aims to facilitate better linkages between regional NRM bodies and knowledge providers, and to assist regional NRM bodies to better manage their information. Different components of the package are intended to be rolled out in 2008. This initiative should assist in creating a mechanism for better disseminating information to NRM professionals and interested parties engaged in NRM.

2.15 The ANAO recognises that the Joint Team's actions to date have the potential to provide widely-accessible documentation on the activities and achievements being undertaken. However, these actions have not, as yet, resulted in comprehensive or timely dissemination of information regarding the economic costs and benefits of treatment options for investments undertaken. There is no documentation or guidance to advise regions (or other bodies delivering on-ground actions) as to whether or not particular actions will deliver good value for money results over the longer term. For example, would a tendering process for biodiversity conservation deliver better value for money than a devolved grant program? How will the tradeoffs be best managed if revegetation reduces the water table in one catchment but at the same time reduces water supply for downstream users? This information is vital to the ultimate success of the programs. The absence of information on the costs and benefits of treatment actions leaves substantial residual risks to the achievement of program outcomes at the end of the NHT 2 and NAP and leading into NHT 3.

Recommendation No.1

2.16 To strengthen the management of risks to program outcomes, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry give priority to documenting and disseminating information regarding:

- (a) the cost-effectiveness of investments in achieving results; and
- (b) lessons learned or insights into quantifiable benefits or unintended consequences from NRM investments.

Agencies' response

2.17 Agreed (See *Appendix 2* for the full response)

Bilateral agreements

2.18 Bilateral agreements were signed between the Australian Government and each State/Territory Government to support the management of the NHT and NAP programs. The agreements are a critical part of the overall framework as well as a key tool for managing the risks associated with the implementation of the regional delivery model.

2.19 The agreements describe, amongst other things, regional arrangements, investment processes, partnership agreements and the roles of non-government stakeholders involved in NRM. The agreements also describe the requirements that regional bodies must meet to receive funding. For example, regional bodies must be incorporated and maintain proper financial accounts.

2.20 In 2006, the Australian Government commissioned an evaluation of the agreements. The evaluation found there was broad support for the elements of the agreements, and 'wide acknowledgement that the agreements are working and delivering better strategic and a longer-term focus on natural resource management outcomes'.²⁹ The evaluation recommended that the core institutions, structures and processes in the bilateral agreements be retained for NHT 3.

²⁹ ITS Global, *Evaluation of the Bilateral Agreements for the Regional Component of the Natural Heritage Trust of Australia*, 2006, pp. 3–4.

2.21 The ANAO agrees with the evaluation findings and considers that the agreements are well designed and provide a good basis for agreements under NHT 3. However, some issues for consideration are the timeliness and consistency of the agreements.

Timeliness in signing the agreements

2.22 As shown in Table 2.2, the bilateral agreements were signed between June 2001 and December 2006.

Table 2.2

Dates on which the NAP and NHT bilateral agreements were signed

State/Territory	Date NAP Bilateral Agreement signed	Data NHT Bilateral Agreement signed
New South Wales	17 May 2002	14 August 2003
Victoria	02 October 2001	12 December 2002
Queensland	01 March 2002	18 June 2004
Western Australia	11 September 2003	17 December 2002
South Australia	08 June 2001	17 April 2003
Tasmania	13 February 2002	05 June 2003
Northern Territory	07 February 2003	05 June 2003
Australian Capital Territory	20 December 2006	27 March 2003

Source: ANAO analysis of data available from www.napswq.gov.au and www.nht.gov.au [accessed 10 September 2007]

2.23 Negotiations between the Australian Government and the State/Territory governments were often protracted and, consequently, this affected the timeliness of the implementation of the bilateral agreements. For example, some States were reluctant to match Australian Government contributions with cash, preferring instead to provide in-kind contributions.³⁰ The delays in reaching agreement had unfortunate consequences for some regions in existence prior to NHT 2. Staff members were laid off and regional bodies were downsized. This is a risk during the transitional period for NHT 3. However, the Joint Team has indicated that they are aware of the problem and are working with the States and Territories to ensure that agreements are in place as soon as possible for NHT 3.

³⁰ The matched contribution concept was developed in the planning for the NAP, where the agreed Australian Government contribution included a requirement for the States/Territories to match this contribution with new funding. This is discussed in the ANAO's Audit Report No.17, 2005–06, p.26.

2.24 Negotiations over the content of the bilateral agreements also resulted in inconsistency between agreements. For example, the agreement signed by Ministers on behalf of the Queensland and Australian Governments includes a special arrangement where, unlike all other States/Territories, the Queensland Government is not required to offset any interest earned on funding. To avoid any suggestion that some States/Territories have been given preferential treatment, it is desirable that all provisions of bilateral agreements for NHT 3 are as consistent as possible.

The establishment of regions and regional bodies

2.25 NAP regional boundaries were defined prior to the introduction of the NHT 2 regions. In most States, there were pre-existing NRM regional organisations and some of these formed the basis for the final NHT/NAP regions. The bilateral agreements between the Australian and State/Territory governments expanded the capacity of pre-existing regional bodies (such as in Victoria) and established new regional bodies, particularly in Queensland, Western Australia and Tasmania. In New South Wales and South Australia, new statutory regional bodies were established under State legislation in the early period of the programs.

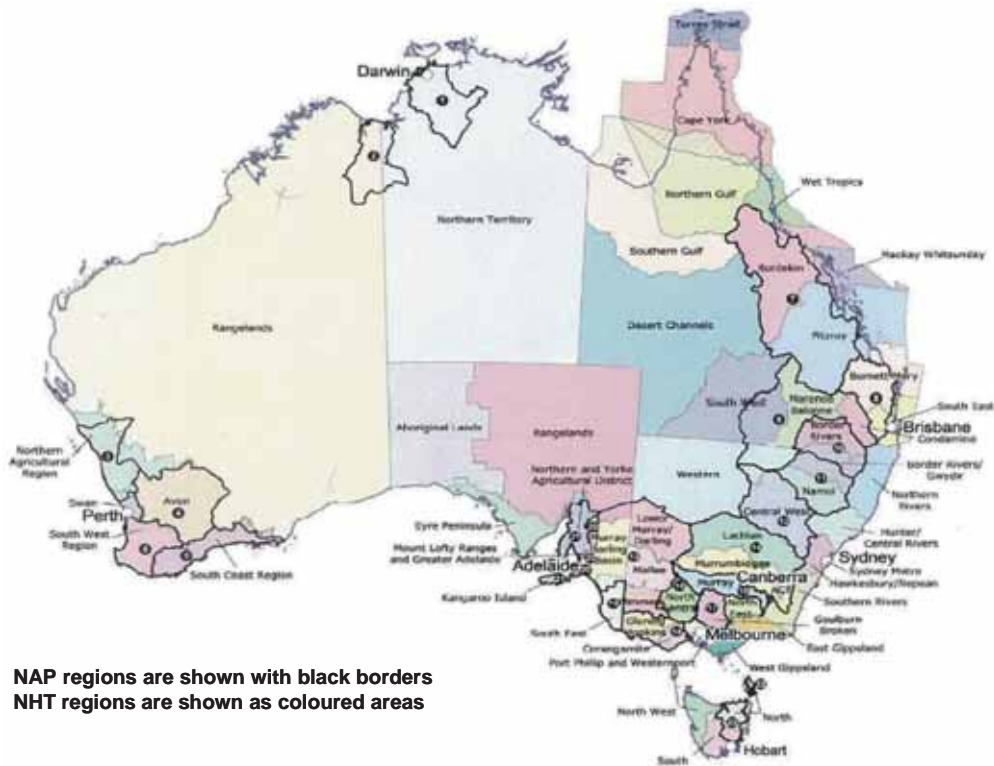
Establishing NAP regions

2.26 The NAP regions were designed to align with the greatest priority for investment in the management of salinity and water quality.³¹ In May 2002, the Australian and State/Territory governments agreed to 21 regions for NAP investment. The number of NAP regions was later increased to 22 for easier delivery. Due to the size of some of these regions and because four NAP regions cross over one or more State/Territory boundaries, 34 regional or sub-regional bodies were identified.

Aligning NHT with NAP regions

2.27 For NHT 2, the Australian continent was divided into 56 regions, based on catchments or geographic regions, with one regional body per region. NAP regions are overlaid on the NHT 2 regions in Figure 2.1.

³¹ Australian National Audit Office, Audit Report No.17 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*, ANAO, pp. 32–36.

Figure 2.1**NHT 2 and NAP regions**

NAP regions are shown with black borders
NHT regions are shown as coloured areas

Source: Image courtesy of the Joint Team

2.28 Ministers were advised that regional delivery of NHT 2 was to be integrated with the NAP where possible. However, Figure 2.1 shows that the regions do not align. Nevertheless, regional bodies were required to develop a single NRM plan, based on the NHT regions that would cover both NHT and NAP investment. This made the NAP regions somewhat redundant in terms of program implementation, although the boundaries do influence funding allocations. One regional body commented on the effect of this in their response to the ANAO's survey:

The catchment has 20 per cent of the area under NAP catchment. However [the] NAP provides about 75 per cent of total funds resulting in a complete imbalance of dollars versus expectations.

2.29 The incongruence between the NHT 2 and NAP regional boundaries has created complexity and confusion. It also makes measuring and reporting on progress against the plans more challenging. However, NAP will not continue

after 30 June 2008, and the ongoing focus will be on NHT regions. The ANAO considers that this will assist in achieving more streamlined program planning, delivery and reporting in the future.

Establishing regional bodies

2.30 The bilateral agreements require all regional bodies to be incorporated.³² However, this has occurred under different legal arrangements. For example:

- regional bodies in New South Wales, Victoria and South Australia are statutory authorities incorporated under specific NRM legislation;
- Tasmanian regional bodies are not statutory authorities. However they are created under specific NRM legislation;
- the Australian Capital Territory and the Northern Territory governments are regional bodies for NHT funding purposes and are therefore statutory bodies; and
- regional bodies in Western Australia and Queensland are incorporated as corporations or entities under non-NRM specific legislation.

2.31 The key priorities for each new regional body were the establishment of a regional plan and an investment strategy. As part of the ANAO’s survey, regional bodies were asked whether or not they considered that *the guidance and information from the Australian Government had been clear and helpful in assisting with matters such as regional planning and investment*. The responses from the regional bodies were mixed and are shown in Table 2.3.

Table 2.3

Aggregated survey responses from 50 regional bodies to the question:

Guidance and information from the Australian Government had been clear and helpful in assisting with matters such as regional planning and investment.

Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Number of regional bodies	5	16	13	8	8

Source: ANAO analysis of responses received from 50 regional bodies to the ANAO’s survey

2.32 While 21 of the 50 regional bodies were positive in their comments, the remaining 29 were either neutral or had reservations about the clarity and

³² The ANAO’s Audit Report No.17 2004–05 found unincorporated regional bodies in receipt of Australian Government funds.

helpfulness of guidance and information provided to regional bodies. Regional bodies also recognised the difficulties faced in the early phases of the implementation of the regional delivery model. For example, one respondent commented that:

Initially the goal posts kept changing as the Joint Team was learning as it went—in the planning phase. This has improved as the program has matured and moved from a planning to an implementation phase.

2.33 Another respondent commented that:

...[at the start of the program] there was so much conflicting information between the State and the Joint Team that even when you had representatives from each government in the room, they couldn't agree. This caused [the regional body] quite a lot of angst as well as delays in producing early documents to the satisfaction of both parties. Huge time, dollar and human resources wasted while the fight for supremacy reigned. Currently no complaints.

2.34 In addition, respondents also commented about the level of micromanagement, 'red-tape' and the need for greater delegation of decision making to the Joint Steering Committees (JSC) and the Joint Team's officers. However, respondents across all response categories commented that guidance and information had improved over time. The need to implement the findings of the Red Tape Taskforce was specifically cited by one respondent.

Red Tape Reduction Taskforce

2.35 In 2003, the NRM Ministerial Council established the Red Tape Reduction Taskforce in response to concerns expressed by regional bodies about the timeliness of approvals and payments, amongst other matters. The Taskforce's report identified seven principles for efficient regional program delivery. These were:

- devolved decision making;
- outcome focus;
- simple processes and systematic implementation of the NHT and NAP;
- regional one-stop-shop reporting;
- timeliness;
- funding certainty; and
- transparency of process.

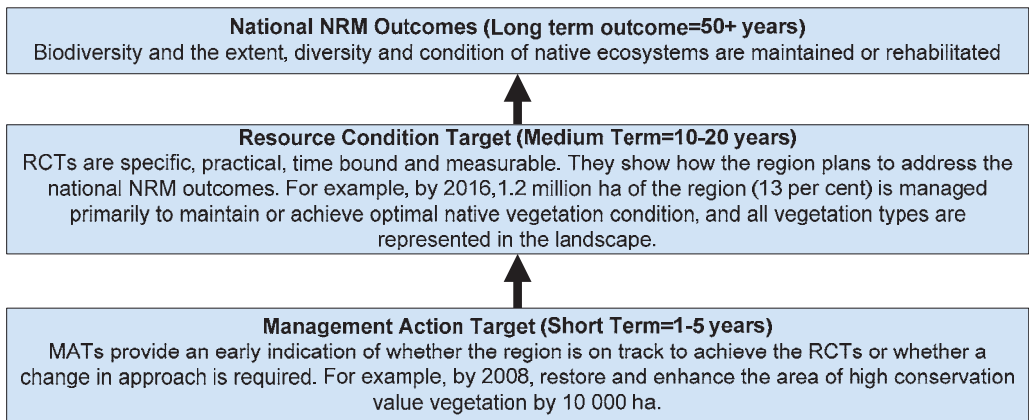
2.36 Subsequent to the report, a range of measures were introduced by State and Australian Governments to improve program delivery. For example, Queensland revised its administrative and approval processes to streamline the quarterly payments on receipt of progress reports. Australian Government Ministers endorsed a set of national principles determining investment priorities, prepared in consultation with the JSC co-chairs. These principles were to be used by jurisdictions in developing guidelines at the regional level.³³

Development and accreditation of regional plans

2.37 Each regional body was required to develop a plan that provides both a strategic framework for NRM in the region and a direction for future investments. Regions were instructed to develop resource condition targets (RCTs) and management action targets (MATs) that would direct investment and enable progress towards resource condition change to be measured. Instruction was provided by the NRM Ministerial Council regarding the areas for which RCTs and MATs were to be set. The relationship between RCTs and MATs is illustrated in Figure 2.2.

Figure 2.2

Relationship between outcomes, RCTs and MATs



Source: ANAO analysis

2.38 To be confident that the plans would deliver the agreed outcomes, an accreditation process was developed. Accreditation is an important quality

³³ Report of the Natural Resource Management Community Forum, *Appendix 6: Progress on Issues from April 2003 Forum*, Adelaide, April 2004, p. 28.

control and assurance mechanism. Each JSC oversees the development of regional plans and accredits them when they meet established criteria.

Accreditation criteria

2.39 In May 2002, the NRM Ministerial Council agreed upon the criteria for accrediting a regional plan. The criteria require plans to, amongst other things:

- cover the full range of NRM issues;
- be underpinned by scientific analysis; and
- focus on addressing underlying causes rather than the symptoms of problems.³⁴

2.40 While the ANAO considers that the criteria should provide a reasonable basis for accrediting plans, they were distributed after the regional bodies started developing their plans. The Joint Team did not clearly articulate the level of detail that was required to address the criteria. In addition, Australian and State/Territory governments had differing expectations regarding the content of the plans.³⁵ This caused confusion and resulted in revisions to the plans, which delayed the development, and consequently the implementation, of the plans. Ministers were advised of the delays in May 2002 and the NRM Ministerial Council supported the Council of Australian Government Ministers' commitment that substantial progress on regional plans be made in all jurisdictions by the end of 2002. Both the Joint Team and the JSCs therefore put considerable effort into assisting regional bodies to have their plans accredited.

2.41 However, the ANAO found that there were instances of the targets in the regional plans that did not meet the criteria for accreditation. For example an analysis of eight regions by the ANAO found that 80 out of 163 resource condition targets within accredited regional plans did not meet the stated criteria in terms of being measurable and having specific timeframes. Nevertheless, they have been approved. This finding is supported by a recent report from the Victorian Catchment Management Council which found that of

³⁴ Australian Government Natural Resource Management website: *What is a Natural Resource Management Plan?* available from <<http://www.nrm.gov.au/nrm/plan.html#accreitationcriteria>> [accessed 3 September 2007].

³⁵ Australian National Audit Office, Audit Report No.17 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*, ANAO, pp. 55–60.

the 530-plus resource condition targets in Victorian regional catchment strategies, few were specific, measurable, achievable, realistic or time-related.³⁶

The science underpinning the regional plans

2.42 In 2004, a CSIRO report noted that the accreditation process is:

specific concerning requirements for science to underpin NRM planning, but less specific on how this will be assessed uniformly... there is a suggestion that the scientific robustness of targets is being overlooked in the desire to put investment strategies into place.³⁷

2.43 Further, the CSIRO reported perceived deficiencies in the accreditation process, including insufficient clarity on the requirements for the robustness or integrity of the science required in the plan. Time pressure was also reported as a factor contributing to the lack of adequate scientific input into plans. It was felt that there were unrealistic expectations about timeframes on the part of all parties, both in terms of accreditation drivers, and the different pace of Australian Government, State/Territory Government and regional planning.³⁸

2.44 Regions surveyed by the ANAO commented on the lack of adequate scientific data. Only 24 per cent (12 out of 50) of regions agreed that the level of scientific knowledge and technical data available had been adequate for developing plans, investment strategies and measurable regional targets. One regional body commented that:

There are many data gaps in our region that compromise our ability to deliver best on-ground outcomes. While we have invested as best we can, better data would mean better on ground outcomes and we are working towards this.

2.45 The absence of sufficient scientific data limited the ability of the regional bodies to underpin their targets with robust science and explicitly link targets in the plans to program outcomes. The CSIRO report noted that regardless of whether or not proposed targets were underpinned by scientific knowledge and experimentation, there was little information forthcoming that suggested that targets, even if met, would be sufficiently robust to arrest or reverse the

³⁶ Victorian Catchment Management Council, *Catchment Condition Report*, 2007, p. 13.

³⁷ CSIRO and Bureau of Meteorology, *Scientific Advice on Natural Resource Management: A Report to the Natural Resource Management Ministerial Council by the CSIRO and the Bureau of Meteorology*, February 2004, p. 21.

³⁸ *ibid.*, p. 20.

decline in catchment condition in many areas. In addition, CSIRO considered that it may be contributing to a duplication of the research effort.³⁹

2.46 Further, the ANAO found that targets set in the regional plans did not necessarily complement targets set for projects/programs receiving funding through other NHT investment streams (national or local). For example, salinity targets set by regional bodies in the Murray-Darling Basin do not align with targets set out in the Murray-Darling Basin Commission's *Basin Salinity Management Strategy*.⁴⁰ Where regional bodies and other programs are acting on the same NRM issue(s), as is the case in the above example, it is important that targets align so activities funded by each of the investment streams complement each other. Tackling challenges such as dryland salinity require strong collaborative efforts at all levels (national, regional and local) if public resources are to be well targeted and used effectively.

Accreditation of plans

2.47 To date, 55 of the 56 regional bodies have had plans accredited by Ministers. Only Queensland's Cape York region lacks an accredited regional plan. The then Australian Government Ministers for the Environment and Water Resources and for Agriculture, Fisheries and Forestry did not accept the plan proposed for this region. Reasons were documented and related to rejection of a proposal within the plan to have the whole region considered for listing as a World Heritage area. Ministers were also concerned that the plan was too complex, technical and not presented in a readily understandable style. There is currently no formal NRM group in this region and the Australian and Queensland Governments remain in dispute over regional representation.

2.48 The problems in the Cape York region highlight an area of weakness in the regional model and its dependence on community cohesion. Despite the obvious relevance of the objectives of the NHT, the Cape York region has been constrained in terms of what has and is likely to be achieved over the life of the program. This is unavoidable where there are substantial policy differences between governments. Further, there is a risk that these problems will extend into NHT 3 unless steps are taken to resolve outstanding differences.

³⁹ op cit., pp. 20–21.

⁴⁰ The *Basin Salinity Management Strategy* guides communities and governments in working together to control salinity in the Murray-Darling Basin and protect key natural resource values within their catchments.

Improving the quality of regional plans

2.49 The ANAO noted that regional bodies and some States have developed a culture of ongoing review and improvement of plans and the science underpinning targets. State and regional bodies commented to the ANAO that targets are being reviewed to make them more realistic and appropriate. Importantly, State bodies have been established to improve planning and target setting. For example:

- the Natural Resources Commission (NRC) in New South Wales has broad investigating, audit and reporting functions in regard to enabling the adoption of state-wide standards and targets for NRM issues;⁴¹
- the Centre for Natural Resource Management in South Australia oversees the State's resource component of the NAP and brokers the development of research programs underpinning regional NRM needs and initiatives; and
- the Victoria Catchment Management Council (VCMC) is involved in assessing the research and development needs for each regional body. The VCMC's periodic reports provide important benchmarks in terms of the overall health of catchments in Victoria.

2.50 The Joint Team has indicated that ongoing research and development actions will continue to focus on the delivery of better scientific and technical information to NRM practitioners with the roll out of NHT 3. Efforts will focus, in particular, on developing a more cohesive and useful research and development framework, and on enhancing the capacity of the NRM knowledge system to deliver tailored knowledge products to regional bodies and other practitioners.

2.51 The ANAO considers that, while there were shortcomings in the accreditation of the regional plans, overall, the plans were based on the best available information at the time. The ANAO acknowledges that it was no easy task to develop high quality regional plans—particularly in the absence of good quality data. Nevertheless, they were an integral part of the program design and intended to provide a targeted approach to achieving the program objectives, based on sound science. It will be important for the roll out of NHT 3 that all regional plans are of sufficient quality to provide an assurance that program outcomes are likely to be achieved.

⁴¹ *Natural Resources Commission Act 2003* (New South Wales), s. 13.

Regional Investment Strategies

2.52 Regional investment strategies (RISs) are the responsibility of the regional bodies and are prepared by the regional body following accreditation of the regional body's NRM plan.⁴² The cumulative \$1.08 billion funding under the NHT 2 and NAP to the States/Territories (as shown in Table 1.1) has been allocated on the basis of approved RISs. The investments were directed towards activities such as salinity mitigation works, revegetation and rehabilitation of native vegetation, pest animal and plant controls, improving rivers and waterways and recovery plans for threatened species.

2.53 The investment strategies also define the actions, costs and timeframes required to achieve the targets set out in the regional bodies' accredited plan. Table 2.4 illustrates the link between these elements.

Table 2.4

An example of the link between RCTs, MATs and the RIS

RCT	MAT	Activity	Year	Australian Government investment (\$m)	State/Territory Investment (\$m)
By 2016, improve the condition of native terrestrial and aquatic ecosystems.	By 2016, 40 000 ha of native terrestrial and aquatic ecosystem under secure conservation management.	An increase in the area of native terrestrial and aquatic ecosystem under secure conservation management by 1 960 ha.	2006–07	0.39	0.39
			2007–08	0.67	0.71

Source: Extract from a Regional Investment Strategy submitted to the Joint Team in 2006–07.

2.54 In addition, the RIS is expected to include calculations for the anticipated return on investment that the investment aims to achieve, such as reductions in salinity or increased biodiversity conservation.

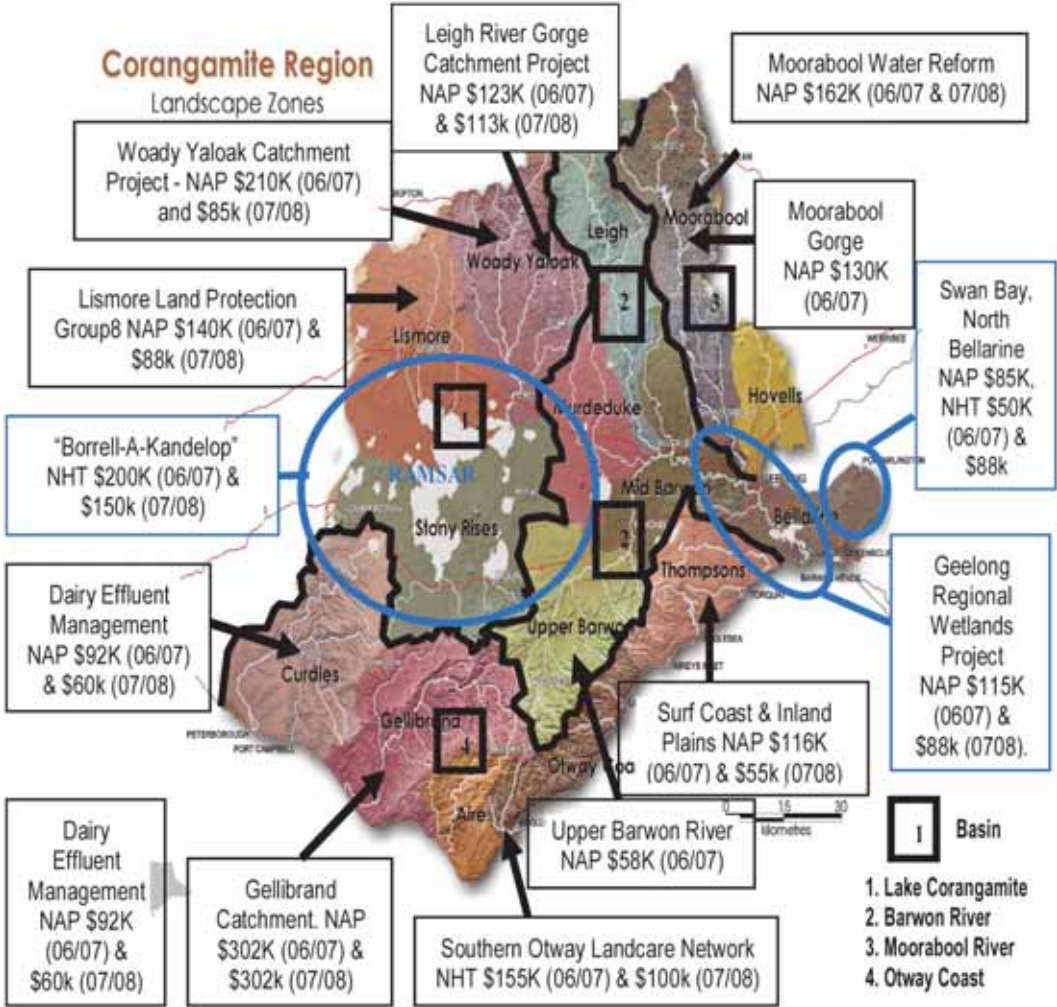
2.55 The sample of 12 RISs examined by the ANAO provided both financial and geographic information illustrating the types of investments proposed and where they will be targeted within a catchment. For example, Figure 2.3 shows how the Corangamite regional body in Victoria identified the sites of critical

⁴² Most regions have been preparing RISs annually although some of the more established regions have moved to biennial RISs.

assets to be protected in its region (that is, Ramsar Wetlands—wetlands listed as being of international importance, and related water systems), and the investment involved.

Figure 2.3

Corangamite Catchment—Critical assets to be protected



Source: Corangamite Catchment Management Authority

Appraisal of regional investment strategies

2.56 A good appraisal process is one that is sufficiently rigorous to ensure that those investments selected represent value for money within the context of the objectives of the program. Documentation of the reasons for decisions is also

important to meet administrative law principles and for transparency and accountability. Each RIS is appraised by the JSC and the Joint Team to assess the likelihood that the RIS will contribute to the program's outcomes. The appraisal provides the basis for the Australian and State/Territory Government Ministers' consideration and if appropriate, approval of the RIS.

2.57 The ANAO examined the appraisal criteria and a sample of 12 briefings prepared by the Joint Team seeking Ministerial approval of RISs for regional bodies for 2007. These RISs represented regional bodies from four States (New South Wales, Victoria, Queensland and Western Australia). The ANAO also examined a sample of historical assessments from the JSCs, which generally precedes the brief to the Minister. The ANAO found there was documentation to support reasons for decisions. These decisions were based on merit and linked to the appraisal criteria. This was consistent across the regions examined.

2.58 In six of the 12 briefings examined, the quality of the RIS has enabled the Joint Team to advise Ministers (at least in part) of the anticipated percentage of the resource condition target likely to be achieved from the investment. However, only one of these regions had completed this comprehensively. Identifying the anticipated percentage likely to be achieved is good practice as it provides an indication of value for money and enables comparison of investments across regions. This should become more comprehensive and standardised across RISs in future years.

2.59 The ability of regions to quantify what the investments will achieve is constrained by the nature of the target and the availability of relevant monitoring and/or modelling systems. Where targets have yet to be developed, appraisal is more difficult. In three cases examined, targets were being developed as part of or in parallel with the RIS. The Joint Team advised that they have been working with the States/Territories to assist regions to improve their ability to describe the impacts of their investments on achieving targets. Without this information, it is difficult to compare value for money across regions.

2.60 The RISs also highlight that, based on current trends, the achievement of significant land or water use change as originally envisaged, will be a long-term process. From the only region where there was a comprehensive statement of the expected contribution of the RIS to condition targets, expected results were frequently low. For example, the investments from 2006–07 and 2007–08 were anticipated to achieve equal to or less than one per cent of

identified resource condition targets in 16 of the 24 cases cited. That is, at the current rate of progress it will be appropriately 200 years before the outcome target is achieved. The most cost effective proposal was anticipated to achieve 15 per cent towards improved soil health as a consequence of integrated property management planning.

2.61 All of the regions examined are still trialling actions and developing case studies or demonstration sites. This is understandable as the investment resources available are not large when compared to the challenge at a landscape scale. In some cases, regions are documenting their successful results (such as in regard to the management of dairy effluent) and these results are feeding into a national picture across regions.

2.62 However, in other cases, (such as in regard to dryland salinity mitigation) there is no certainty that actions will be successful or that they can be broadly applied across other regions. Without quality data on which options are best in particular circumstances, it is difficult to ascertain what is likely to be cost effective over the longer-term. This demonstrates the constraint facing all levels of government and the regions in improving NRM practice. It also indicates the critical importance of national documentation on what initiatives are cost effective and sharing this information (as discussed in paragraph 2.15).

2.63 A further issue in terms of funding approvals is that the Cape York region⁴³ has received funding without any accredited plan or RIS. As previously discussed, this is largely because tensions within regional interests have made it difficult to establish a broadly representative group. Policy differences between Australian and Queensland Ministers concerning World Heritage listing have also contributed. In the absence of an accredited plan or a broadly representative NRM group, the Cape York Peninsula Development Association (CYPDA) was asked by the Australian Government to take on responsibility for implementing the NHT in Cape York. This arrangement was agreed in May 2006. The CYPDA signed a contract with the Queensland Department of Natural Resources and Water to act as an interim 'service provider' in the Cape York region for the delivery of approximately \$5 million of NHT projects that would be likely to have broad support. For example, NHT investment has supported a fire management project, seagrass

⁴³ At 140 000 square kilometres the Cape York Peninsula is the largest least-disturbed landscape along eastern Australia. Approximately 18 000 people live in the region, which also includes extensive areas of wetlands, tropical woodlands, rainforest, heathlands and tall forest.

monitoring, a turtle nest protection program and a weeds and feral animal control program.

2.64 While these investments may well be worthwhile, there is a risk that continuing funding for a region without an accredited plan will undermine the credibility of the planning and accreditation process. It establishes a precedent for future programs that weakens the capacity of the Australian Government to achieve nationally consistent outcomes, and jeopardises local community ownership of the process. As outlined in paragraph 2.47, unless steps are taken to resolve outstanding differences, there is a risk that these problems will extend into NHT 3.

Conclusion

2.65 The rationale for the delivery of the NHT 2 and NAP was documented and well supported by stakeholders. The Joint Team has developed a comprehensive risk management plan that enables the Australian Government to identify and treat important risks to the programs. However, guidance as to whether or not particular actions will deliver good value-for-money over the longer term needs to be strengthened. This information is vital to the ultimate success of the programs. The absence of information on the costs and benefits of treatment actions leaves substantial residual risks to the achievement of program outcomes.

2.66 The bilateral agreements were generally well designed and provided a good basis for progressing the collaborative nature of the programs amongst Australian, State and Territory agencies as well as regional bodies. Greater consistency across agreements would be desirable for the new agreements under NHT 3. Delays in reaching agreement compressed the timeframe for implementation and there were unfortunate downsizing consequences for some regions in the transitional arrangements between NHT 1 and NHT 2. This is being taken into account for NHT 3. The incongruence between NHT 2 and NAP regional boundaries created complexity and confusion. Again this will be addressed through NHT 3.

2.67 While based on the best available information at the time, there are significant limitations in the regional plans that outline the targets and the basis for NRM priorities. However, there is a process of improvement in train in a number of States and this should be carried forward nationally for NHT 3. Addressing the lack of an accredited plan in Cape York should also be a priority. Regional Investment Strategies approvals are documented and based

on merit. However, further work is required to demonstrate the contribution of the investments towards the ultimate targets and outcomes anticipated for the programs.

3. Governance and Financial Management

This chapter examines the administrative aspects of program governance as well as the financial frameworks supporting the delivery of funding through the regional delivery model.

Introduction

3.1 Good governance is based on the practices an agency's executive employs to provide strategic direction and ensure objectives are achieved with clear lines of accountability.⁴⁴ Sound financial management is an important element of good governance. Within the context of the NHT and the NAP good practice would include: timely payments to meet program commitments when they fall due; transparency in the source and use of public funds; and regular disclosure and independent verification that funds have been expended for their intended purposes.

3.2 To assess the effectiveness of program delivery through the regional delivery model, the ANAO reviewed the regional bodies' governance arrangements and the financial frameworks supporting the transfer of funds from the Australian Government to the regional bodies.

Overview of regional bodies' governance arrangements

3.3 The governance arrangements linking all parties (as shown in Figure 1.1, p.37) involved in the regional delivery of NHT2 and the NAP are documented in the bilateral agreements. The manner by which regional bodies are incorporated also strongly influences their governance arrangements. The key governance features of each State/Territory are summarised in Table 3.1.

⁴⁴ ANAO/Department of the Prime Minister & Cabinet; *Implementation of Programme and Policy Initiatives, Making implementation matter*, Better Practice Guide, October 2006, p. 13.

Table 3.1**Key governance features of each State/Territory**

State/Territory	Features
New South Wales	All 13 regional bodies are incorporated under the <i>Catchment Management Authorities Act 2003</i> . The <i>Natural Resources Commission Act 2003</i> also established an independent body, the Natural Resources Commission (NRC), with broad investigating, audit and reporting functions. Further, the Auditor-General of New South Wales audits the financial statements and can conduct performance audits of regional bodies.
Victoria	Victoria established ten regional bodies as statutory authorities under the <i>Victorian Catchment and Land Protection Act 1994</i> . The Victorian Department of Sustainability and Environment (DSE) is responsible for administering the Act. The Auditor-General of Victoria audits the financial statements of the regional bodies as well as conducting periodic performance audits.
Queensland	The 14 regional bodies in Queensland are either companies limited by guarantee under the Corporations legislation or incorporated bodies under the <i>Queensland Associations Incorporation Act 1981</i> . The regional bodies are required to prepare financial statements and have them audited by a qualified auditor.
Western Australia	The six regional bodies are incorporated under the <i>Associations Incorporations Act 1987</i> . The Act does not require financial statements to be audited, only that accounting records be kept in such a manner to enable them to be audited. Nevertheless, it is a State Government requirement that all regional bodies provide an audited financial statement for funds provided under the NAP and NHT.
South Australia	The eight regional bodies were established as statutory authorities under the <i>Natural Resources Management Act 2004</i> . The Auditor-General of South Australia examines the financial statements of the eight statutory bodies but does not undertake performance audits.
Tasmania	The <i>Natural Resources Management Act 2002</i> (NRM Act) creates three NRM regions each with a 'regional committee' (Board).
Northern Territory	The Northern Territory government is recognised as the regional body for NHT 2 funding purposes. An advisory body provides guidance to the relevant Territory Minister.
Australian Capital Territory	The Australian Capital Territory government is recognised as the regional body for NHT 2 funding purposes. An advisory body provides guidance to the relevant Territory Minister.

Source: ANAO analysis based on the Walter Turnbull *Evaluation of Current Governance Arrangements to Support Regional Investment under the NHT and NAP*, December 2005.

National review of governance arrangements

3.4 The ANAO's Audit Report No.17, 2004–05 commented that governance arrangements needed to be 'scaled-up' to match the level of risk. The ANAO recommended the development of appropriate corporate governance

templates and core training/information to enhance the capacity of regional bodies to meet sound corporate governance practices. This recommendation was agreed to by the Joint Team.

3.5 In December 2005, the Joint Team commissioned an evaluation⁴⁵ of regional bodies to:

- identify the current governance arrangements of regional bodies;
- develop some general principles to improve the capacity of regional bodies to meet Australian Government requirements; and
- suggest ways these principles could be implemented.

3.6 The evaluation found that corporate governance performance was generally satisfactory with one regional body rated as 'better practice'. However, there was scope for improvement across all regional bodies. The report commented that the capacity of regional bodies to meet the Australian and State/Territory Government's financial and program performance accountability and quality requirements had been strained as a result of the priority placed on the completion of regional plans and investment strategies. Risk management arrangements in regional bodies were identified as 'evolving' and few regional bodies had considered business continuity, disaster recovery and fraud risk. In addition, the report commented that though conflicts of interest were 'generally managed effectively...greater assurance could be provided through formally documented policies and procedures for conflict of interest and code of conduct'.⁴⁶

3.7 Following this evaluation, a governance competency checklist was developed and implemented in 2005–06. The checklist assisted State/Territory NRM teams to identify the corporate governance risks facing regional bodies. The checklist was tested in 34 regional bodies. The ANAO considers that the checklist provides a sound basis for evaluating and promulgating lessons learned and 'better practice' to regional bodies.

⁴⁵ Walter Turnbull report to the Departments of Environment and Heritage and Agriculture, Fisheries and Forestry, *Evaluation of Current Governance Arrangements to Support Regional Investment under the NHT and NAP*, December 2005.

⁴⁶ The management of conflicts of interest was raised previously by the ANAO in Audit Report No.17, 2004–05.

Improving governance arrangements

3.8 In addition to the national review, State and Territory agencies have been working with regional bodies to improve their governance arrangements. These ongoing improvements are discussed within the context of two States with statutory regional bodies (New South Wales and South Australia) and two states with independent regional bodies (Queensland and Western Australia).

New South Wales and South Australia

3.9 In New South Wales and South Australia, regional bodies were established as statutory authorities under State legislation in 2003–04.

New South Wales

3.10 In New South Wales, the Natural Resources Commission has oversight responsibilities for the development of State-wide standards and targets for NRM issues. These are explicitly linked to regional standards and targets. The initial role of the NRC has focused on guidance and training for regional bodies. For example, the regional bodies' Chairs and Board Directors have undergone governance training with both the NRC and the Australian Institute of Company Directors.⁴⁷ In addition, the NRC has assisted in the redevelopment of all New South Wales plans to ensure consistency with New South Wales-wide standards and targets.⁴⁸ The NRC will commence audits of the effectiveness of the implementation of the regional plans over the next twelve months.

South Australia

3.11 Prior to the establishment of the eight Boards, the South Australian and Australian Governments commissioned a major review of the governance and accountability arrangements of regional NRM groups. This process effectively addressed the problem identified in the ANAO's Audit Report No.17, 2004–05, where South Australia had an unincorporated regional body in receipt of Australian Government funds. Although technically in breach of the bilateral agreement, the financial risks were minimised by State Government management of the funds. The South Australian Government has developed a framework for best practice governance in all the new regional bodies. This

⁴⁷ All New South Wales regional body Board members are required to undergo training with the Australian Institute of Company Directors within the first 12 months of their appointment.

⁴⁸ There are 13 state-wide NRM targets covering biodiversity, water, land and community.

framework has common elements with the Australian Government framework developed for NRM regions nationally.⁴⁹

Queensland and Western Australia

3.12 Both Queensland and Western Australia have regional bodies that are not constituted as statutory authorities. Consequently, they are legally independent of both the State and the Australian Governments.

Queensland

3.13 In 2005, in response to concerns about consistent delays in financial and performance reporting, the Queensland JSC initiated a Business Improvement Review (BIR) of their regional bodies' governance arrangements. The BIR process was given greater urgency following the identification of a second serious fraud in 2005.⁵⁰ The details are outlined in the following Case Study 1.

Case Study 1—Management of Fraud

One regional body's Board detected significant evidence of possible fraud within the organisation. The Board responded promptly. Following a police investigation, a person was convicted of misusing \$300 000 in funds from the regional body's account. Following notification the Australian Government's Joint Team also responded promptly to the situation.

A forensic audit conducted on behalf of the Australian Government indicated that the exact quantity of the fraud was unclear, although it was likely to be much higher than that identified for the criminal prosecution. However, accounting matters concerned with this fraud are still outstanding. The regional body has been unable to finalise its accounts for the year concerned because it has not been able to ascertain the full extent of the missing funds. The Joint Team has been unable to provide the regional body with a copy of the forensic audit because of concern over a possible breach of privacy requirements.

3.14 While the BIR process found that, generally, the regional bodies were able to manage and deliver the NAP and/or NHT, there were significant variations in performance across regions and a number of important issues were identified, which needed attention. These included:

- gaps in management processes or practices such as delegations from the board to the CEO, absence of fraud control plans, and poor project management processes—for example, one region had 256 management action targets;

⁴⁹ In April 2003 the NRM Ministerial Council agreed to best practice governance principles for NRM that will provide a basis for guiding governments in natural resource policy development and program implementation, particularly the National Action Plan on Salinity and Water Quality and the Natural Heritage Trust. These principles were applicable to regional delivery mechanisms. The principles for NRM were consistent with agreed national standards and international directions in good governance. (Source: NRM Ministerial Council Communiqué)

⁵⁰ In NHT 1, a fraud of \$225 000 was identified and is yet to be resolved.

- high turnover of staff in some regions; and
- poor relationships with local Landcare and related NRM groups (in one region).

3.15 The BIR process enabled those regions experiencing difficulties and challenges to make improvements in important areas. The ANAO's consultation with regional bodies indicated that they were conscientiously seeking to improve their governance processes. The impact of these efforts will be clear following the completion of the second round of the BIR which is currently underway.

Western Australia

3.16 In 2004, the Auditor-General of Western Australia conducted a performance audit of the management of NAP and NHT funding. The audit found that:

State and the regional bodies have not yet agreed on the appropriate governance arrangements that the [regional bodies] need to have in place to ensure probity and effective and accountable management, such as in the areas of financial and human resource management, contracting and procurement. Nor has there been agreement on the most effective way for the State to ensure that the [regional bodies] have the ongoing skills and capacity to effectively manage the expected funding.⁵¹

3.17 The report also noted that there was no process in place to provide assurance that the financial and output reports submitted by the regions were reliable. In one instance, one regional body advised that its financial systems did not support the allocation of expenditure against outputs. Consequently, this regional body could not report its expenditure for separate outputs. In 2004, the Western Australian Government directed the Department of Agriculture and Food to put in place improved governance processes. These included contracts addressing issues of accountability, financial and information management, human resource practices, purchasing and contracting. A series of internal audits by the Department of the regional bodies has provided a framework for regional bodies to better managing risks.

⁵¹ Office of the Auditor-General of Western Australia, Audit Report 9, *Report on Ministerial Portfolios at 1 November 2004*, and *Performance Examination of the Management of Natural Resource Management Funding*, OAG, November 2004, p. 26.

Improving accountability for programs through regional bodies

3.18 All regional bodies interviewed by the ANAO were aware of their responsibilities and were taking actions to improve governance. Some regional bodies have demonstrated that they are monitoring the use of NHT/NAP funds by other local NRM groups. During the audit, regional bodies commented to the ANAO that there was the potential for 'double-dipping' in NHT 2. This is because the national, regional and local investment streams such as *Envirofund*, the National Landcare Program (NLP) and Community Water Grants are not necessarily operating on the same time frames and involve different assessment processes.

3.19 The Joint Team has indicated that it has been working to better integrate the processes for the local and regional investment streams. A list of successful *Envirofund* projects is provided to regional bodies on the completion of each *Envirofund* round. Regions have now also been invited to participate in the assessment process and to provide comments on applications. This is likely to improve the management of the risks of double-dipping. However, two regions commented that it is still a difficult challenge for regions with hundreds of applications – particularly where there are tight timeframes involved. For programs such as the NLP, payment of an administrative fee to the regions assists the process while this does not occur for *Envirofund*.

3.20 One area where integration could be improved is in the extent to which projects funded from the local investment streams contribute to the regional plan. Currently, outputs from the local investment stream are not provided to regional bodies. This means that regions are effectively unable to incorporate the program results from local investment stream programs into their regional monitoring and reporting processes. The Joint Team has indicated to the ANAO that it is currently working closely with regions to develop a process for providing outputs data to them in a meaningful and useful format.

3.21 The importance of managing outputs and the probity of the NHT/NAP at the regional level is illustrated in Case Study 2.

Case Study 2—Managing program risks through the regional bodies

One regional body investigated an allegation that a landholder had misused funding of over \$66 000 for five NRM projects provided over several years. Some of this funding was provided to the landholder in NRM programs prior to the establishment of the regional body.

A site inspection by the regional body in February 2007 found evidence to suggest that the landholder had not undertaken activities, such as tree planting or the installation of fencing, for which funding had been received. Further, livestock had been permitted to graze in the project area(s), contrary to the requirements of the grant.

The landholder commented to the regional body's officers that numerous Landcare projects were carried out on the property in the 1990's and that all fencing and on-ground works had been removed and replaced by subsequent projects. The property appeared to the regional body as being 'a small farm that had been overcapitalised with government funded infrastructure'. The property had 'poor grazing management practices with numerous incomplete projects with a possible duplication and rorting of government funds'. The resolution of this matter is currently under consideration.

3.22 This case study highlights the potential risk for misuse of government funds in the delivery of the NHT. It also highlights how the regional model, with closer ties to local communities and strong governance arrangements can be more effective in the early identification of problems. However, a key point in the success of this approach is that it relies on the regional bodies being made aware of notionally approved funding from other related NRM programs and having the opportunity to provide local knowledge and input before funding is approved. Providing this information should be a priority in the lead up to NHT 3.

Cash flow management

3.23 Good cash flow management practice is important for the success of the programs. The correct timing of payments is crucial as payments made too early are an unnecessary cost the Australian Government. However, payments made too late risk delaying the program results and put considerable strain on the financial capacity of regional bodies, dependent upon external program funds.

3.24 The bilateral agreements between the Australian Government and State/Territory governments require both parties to pay the cash funding contributions into a single holding account (SHA) prior to being forwarded to regional bodies. Each SHA is administered by the relevant State or Territory agency but oversighted by the relevant JSC. Consequently, the Joint Team as well as the State agency is required to authorise payments from the SHA to the regions.

Previous reviews of cash management practices

3.25 In 2003, the Auditor-General of Victoria identified problems in the governance system in place in Victorian regional bodies—all of which had received Australian Government funding from either the NAP or the NHT.⁵² The Auditor-General of Victoria commented that:

With the influx of Commonwealth funds, and associated growth in operations, many authority businesses have outgrown their basic financial and project management systems and procedures. In some authorities, management no longer has access to the type and detail of information needed to make informed business decisions.⁵³

3.26 A problem noted by the Auditor-General of Victoria was the capacity of one regional body to meet existing financial commitments for projects and ongoing fixed costs. In this case, significant expenditure was made to a program from funds received for other purposes. The regional bodies' Board was not kept informed of these shortcomings in financial management. The regional body in question would have been insolvent if it was required to repay grants received for work not completed, or complete all work for which it had received funding.⁵⁴ Considering the Auditor-General of Victoria's comments, the ANAO examined cash management practices and their impact on the solvency of regional organisations.

Payments into the single holding accounts

3.27 The bilateral agreements specify that payments to the SHA are to be made quarterly, in advance, contingent upon the achievement of any milestones scheduled for the previous quarter. The ANAO reviewed the timing of payments made by the Australian Government to the SHA. The elapsed time for funds to move from the Australian Government to the SHA for the period 2002–03 to 2005–06 is shown in Table 3.2.

⁵² For the year 2002–03, Victorian regional bodies were in receipt of \$31.6 million in grants from the NAP and \$8.95 million from NHT 2.

⁵³ Office of the Auditor-General of Victoria, *Report on Public Sector Agencies*, November 2003, p.221.

⁵⁴ *ibid.*, p. 194.

Table 3.2

Days elapsed after 1 July of each year until 25 per cent or more of Australian Government payments had entered into respective SHAs

State	2002–03	2003–04	2004–05	2005–06	2006–07
New South Wales	-	273	334	167	195
Victoria	304	225	124	271	122
Queensland	-	291	260	145	146
Western Australia	-	347	132	90	118
South Australia	-	296	140	137	167
Tasmania	-	86	352	53	171
Northern Territory	355	261	62	236	300
ACT	-	309	175	111	157

Source: ANAO analysis of Joint Team data

3.28 The ANAO found that payments made into SHAs were generally late from year to year across all jurisdictions. The challenges in getting regional NRM plans accredited and RISs approved could explain the difficulties in 2002–03 to 2004–05. Given that 52 out of 56 regional bodies' plans were accredited in 2004–05, the situation should have improved over time. However it has deteriorated, particularly in Victoria and the Northern Territory. The Australian Government, in consultation with the States/Territories, has taken steps to improve cash management in a number of instances. For example, for Queensland, payments into the SHA have been moved to six monthly in advance. While this is in breach of the bilateral agreement, it alleviates an insolvency risk for Queensland regions. This matter should be explicitly addressed prior to the introduction of NHT 3.

Funding to regional bodies

3.29 Delays in payments are also apparent in funds moving from SHAs to the regional bodies. A number of regional bodies reported their quarterly payments were regularly received almost six months late and one regional body reported a payment being received nine months after it was due. The ANAO asked regional bodies about the timeliness of payments made. The aggregated responses are in Table 3.3.

Table 3.3**Responses from 50 regional bodies to the ANAO's survey question:**

Payments from the Australian Government have been made to your region at timely intervals to meet the cash flow needs of projects in your region.

Responses	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Number of regional bodies	1	21	10	9	9

Note: Two regions had different responses for the two programs, that is, they disagreed with the question for one and agreed with the question for the other. These were recorded as neutral.

Source: ANAO analysis of responses received from 50 regional bodies to the ANAO's survey.

3.30 Although 44 per cent of regional bodies responded positively to the question, most qualified their responses. Some indicated that they accepted the delays as inevitable. Almost all regions had experienced significant delays and several were still experiencing problems with timeliness of payments. For example:

Overall it has been ok but there are significant delays, e.g. we still do not have the last 30 per cent of our funding for 2006–07 and it is May 2007. The system is very inefficient. For example, to have funding approved for the Regional Investment Strategy each year, it has to go to the Joint Steering Committee meeting, then four Ministers need to sign, then a contract [is required] between the Commonwealth and the State, then a contract between the State and us—it can take at least six months—this year it has taken longer. We are out of funds now and I cannot issue any on-ground works contracts until the last 30 per cent of funding arrives.

3.31 Much of the delay is seen as a result of JSC processes. Several regions commented that initial payments of the year are generally very late but subsequent payments are timely. One respondent commented:

I believe payments from the Australian Government have been made at timely intervals to the State. The State however is contracted to administer the funds on behalf of the Commonwealth and disregarding the last eight months, prior administrations from the State has been an absolute joke. So theoretically, the Australian Government has not been the problem, but certainly the State has not delivered NHT satisfactorily.

3.32 The reporting requirement for regional bodies is also substantial as illustrated by figure 3.1 from the Southern Rivers Catchment Management Authority. The photograph highlights the extensive reporting requirements for receipt of funding for regional bodies and the scope for streamlining reporting processes.

Figure 3.1

Reporting requirements for receipt of funding for regional bodies



3.33 A further consideration is that State/Territory government processes have not assisted the process. For example, New South Wales Treasury policies cut across the bilateral agreements when payments were made from the SHA to regional bodies without JSC approval. This is discussed in the following case study.

Case Study 3—New South Wales Treasury policy

In New South Wales, the whole of government 'Net Cost of Services' model (NCOS)⁵⁵ has introduced additional financial targets not envisaged when the bilateral agreement was signed between New South Wales and the Australian Government. From 2006–07 regional bodies in New South Wales are required to comply with the NCOS model.

Using earlier cash flow projections, the New South Wales Treasury set regional bodies a total budget revenue target of \$131.5 million and a total expenditure target of \$158.87 million for 2006–07. However, factors such as delays in regional bodies receiving and expending funds resulted in a shortfall of some \$34.3 million against the expected New South Wales Treasury revenue target. To meet the New South Wales target, this amount was paid from the SHA to regional bodies in June 2007 without the approval of the JSC. Regional bodies were requested not to expend these funds until formally released by the JSC. However, the action had effectively breached the bilateral agreement and undermined the authority of the JSC.

To compound these difficulties, some regional bodies did not include all of their 2007–08 commitments in their cash flow forecasts to the New South Wales Treasury.⁵⁶ As a result, five projects approved under the NAP/NHT2 State-wide and Regional Investments components and one continuing National Landcare project did not receive funds to start in 2007–08. However, because the programs end in June 2008, (the end of the current appropriations for the programs) consideration is being given to temporarily using interest on the funds in the single holding account to fund these projects. Such a situation is not ideal but in the circumstances there is little alternative. Failure to effectively make payments for projects approved by Ministers would undermine Ministerial authority. This matter is to be reviewed by the New South Wales JSC.

3.34 In response to the audit, the NSW Treasury noted that the governance and funding approval processes involving the Joint Steering Committee under the NAP/NHT Bilateral agreements created difficulties in meeting program expenditure estimates included in the State Budget. On occasion the receipt of Commonwealth contributions late in the financial year also undermined effective Budget management. NSW Treasury is working with relevant State and Commonwealth agencies to ensure that these problems are rectified through streamlining of governance and funding arrangements in relation to future NRM programs.

3.35 The ANAO considers that this example, in conjunction with the evidence regarding current cash flow management, highlights the scope for improving cash management and also in expediting the implementation of the principles highlighted by the Red Tape Reduction Taskforce in 2003.

⁵⁵ Net Cost of Services is an accrual measure broadly equal to expenses less retained revenues. Details of the framework were advised to agencies in *Treasury Circular 00/21*, issued on 15 September 2000. The main feature of the NCOS framework is that agencies have a limit for both the Budget year (subject to a tolerance limit) and Forward Estimates years. Available from <<http://www.treasury.nsw.gov.au/pubs/newslett/jan01/vol13.htm>>, [accessed 4 September 2007].

⁵⁶ In some cases, this was a timing issue because some projects had not been approved by Ministers at that stage.

3.36 Future bilateral agreements should clearly state the authority of the JSC. In the event that circumstances change—particularly in regard to State or Territory financial policies—these matters should be discussed and agreed with the Australian Government to maintain the integrity of the Agreement.

Insolvency risk in the regional bodies

3.37 The timing of the release of funds to the regional bodies is a significant factor in the ability of regions to properly manage their cash flow and deliver against their plans. When regional bodies cannot accurately anticipate the timing or value of their cash receipts they face an increased risk of insolvency.⁵⁷

3.38 The ANAO examined the 2005–06 financial statements of 38 regional bodies to assess their solvency.⁵⁸ Of the remaining 18 regional bodies:

- two regional bodies (ACT and NT) were not included in the analysis as these have advisory bodies that provide advice to the responsible Minister and the funds are managed within the context of the Territories budgets; and
- the ANAO was unable to obtain either 2004–05 or 2005–06 financial statements from the Joint Team or the regional body itself. In five of these cases, the regional bodies had not yet finalised their 2005–06 financial statements.

3.39 Overall, 13 regional bodies were identified as having a significant risk of insolvency.⁵⁹ The distribution of these 13 regional bodies by State/Territory is shown in Table 3.4.

⁵⁷ Insolvency occurs when an entity is not able to meet its debts as and when they fall due and payable as defined by the *Corporations Act 2001*, s.95(A).

⁵⁸ Where 2005–06 financial statements have not been available but 2004–05 financial statements were, the ANAO has used the 2004–05 statements.

⁵⁹ An entity was assessed as being at a significant risk of insolvency when its balance sheet showed negative equity or its cash-at-bank balance (which comprised the majority of regional bodies' current assets) was not sufficient to meet its current liabilities.

Table 3.4**Insolvency risk of regional bodies, by State/Territory**

State/Territory	No. of regional bodies reviewed (out of total)	No. of regional bodies at significant risk of insolvency at either 30 June 2005 or 2006.
New South Wales	12 of 13	0
Victoria	10 of 10	0
Western Australia	4 of 6	2
Queensland	9 of 14	8
South Australia	2 of 8	2
Tasmania	1 of 3	1
Total	38 of 54	13

Notes: One Queensland regional body only had income and expense information available; there was no balance sheet information available.

Source: ANAO Analysis of financial statements of 38 regional bodies.

3.40 The financial statements of a further six regional bodies showed they were unable to meet their one-year commitments without further funding. For regional bodies in Queensland and Western Australia, the ANAO was unable to determine whether they will be able to meet these commitments as they have not reported in such a way that recognises any commitments in their financial statements. One regional body's current and contingent assets did not cover its current and contingent liabilities and commitments. Some regional bodies have commented to the ANAO that when funds are delayed they cover their actual commitments by using funds received for other purposes. In addition, two of the ten program evaluation reports in December 2005 and January 2006 raised cash flow management as an issue.

3.41 The Joint Team has acknowledged these cash flow management problems and is considering a range of key changes for NHT 3 based on new funding arrangements. These include:

- a shift from annual development, assessment and approval of investment strategies to two investment strategies for the five year investment period;
- payments into the SHA will be triggered on a six monthly basis and payments out of the account are made on a performance basis;

- Australian Government approval and management of investment will be made at a program level to reduce management, simplify variation and reporting processes and increase regional flexibility to manage variations within a program for outcomes;
- progress reporting undertaken six monthly; and
- where an investment is considered by the JSC to be high risk, measures (such as more rigorous milestones) may be added to encourage appropriate performance and accountability.

3.42 These proposals are consistent with the principles outlined in the Red Tape Taskforce report and should provide greater transparency and certainty to regional bodies. Ideally, the new funding arrangements being instituted by the Joint Team should be introduced as soon as practicable to improve cash management for NHT 3. However, using time as the basis for payments into the SHA, rather than performance, may result in an accumulation of funds in State/Territory accounts and increases the risk that the funds may be allocated without appropriate controls. The ANAO considers that there needs to be greater precision in agreed protocols for the release of funds from the single holding account.

Recommendation No.2

3.43 To provide greater transparency and efficiency in the management of funds for regional investments, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry, in developing bilateral agreements for the Natural Heritage Trust (NHT 3) or similar programs:

- clearly define the authority of the Joint Steering Committees over the release of funds and the management of Single Holding Accounts; and
- streamline payments to regional bodies based on performance requirements set out in the agreed investment strategies.

Agencies' response

3.44 Agreed (See *Appendix 2* for the full response)

Acquittal of payments

3.45 Acquittals provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purpose and in accordance with the terms and conditions of the grant agreement and any relevant legislation. Administrative procedures to acquit grants on a regular basis are an important management control but should be balanced against the level of risk and the cost of compliance.

Compliance with bilateral agreements

3.46 In contrast to the situation at the time of the ANAO's 1996–97 audit, the acquittal process is now explicitly linked to relevant legislation. The bilateral agreements refer to s.19(2) of the *Natural Heritage Trust of Australia Act 1997* and s.5 of the *Natural Resources Management (Financial Assistance) Act 1992*. For the current programs, the bilateral agreements specify the legal requirements for payments made under the NHT and the NAP. These include the acquittal of payments and audited annual reports on expenditure of funds.

3.47 Nevertheless, compliance with these acquittal requirements across regions varies. New South Wales, Western Australia and South Australia have not met the requirements of the bilateral agreements for audited acquittal statements of expenditure of funds from the SHA. Table 3.5 outlines the audited statements provided to the Joint Team.

Table 3.5

Acquittal information by State/Territory for 2005–06

State	As of 30 June 2007, independent audited statement have been provided for 2005–06
New South Wales	No
Victoria	Yes
Queensland	Yes
Western Australia	No
South Australia	No
Tasmania	Yes
Northern Territory	Yes
Australian Capital Territory	Yes but a qualified opinion

Source: ANAO analysis Joint Team data

3.48 While the Auditor-General of South Australia had not provided an audited statement for 2005–06, the 2004–05 statement commented that the State had not disclosed the agreed value of State in-kind contributions required under the bilateral agreement (estimated at almost \$26 million). The Auditor-General of South Australia could not verify that the in-kind State contribution had been made.

3.49 In summary, there are significant shortcomings in the compliance by the States/Territories with the requirements of the bilateral agreements for financial acquittals. At the present time, only three States and two Territories have provided up to date, independently audited financial statements. The remaining States are in breach of the bilateral agreements, which require annual audited statements. The qualifications in South Australia's audited statements need to be addressed as does the absence of acquittals for funds expended by New South Wales and Western Australia. Otherwise, there is little assurance that funds have been spent for their intended purposes. The Joint Team needs to more actively manage compliance with the bilateral agreements.

Unspent funds

3.50 The ANAO's *Better Practice Guide for Administration of Grants 2002* states that if grant funds remain after the completion of a project, procedures to recover those excess funds should ensure that the opportunity cost of delays of returning funds are minimised. For NHT projects, the bilateral agreements state that 'overpayments from the single holding account may be offset against any amount subsequently due by the Commonwealth from the single holding account to the State'.

3.51 The Joint Team advised that, as at 30 June 2006, there was approximately \$6.1 million of unexpended Australian Government grant funding held in State accounts from the NHT 1 (1996–2001). Details are outlined in Table 3.6. The ANAO was advised by the Joint Team that these funds were meant to be used to offset NHT 2 funding. However, at the time of the audit, this had not occurred.

Table 3.6**Unspent NHT 1 funds in State/Territory accounts at 30 June 2007**

State/Territory	Unspent NHT 1 funds (\$m)
New South Wales	2.58
South Australia	1.58
Western Australia	1.35
Northern Territory	0.59
Total	6.1

Source: ANAO analysis of State/Territory agency reports to the Joint Team

3.52 The ANAO considers that, as a priority, the Joint Team should seek the return of these funds to the NHT special account or offset them against impending Australian Government commitments under the program by the end of NHT 2.

Interest earned on State/Territory accounts

3.53 The bilateral agreements for the NHT 2 specify that there will be full transparency of the source, quantum and expenditure or outlay of all resource contributions under the NHT, including for cash and in-kind contributions. Both the Commonwealth and the States/Territories make payments into the State/Territory SHA. Interest earned from funds deposited in each State/Territory SHA is generally required to be offset against future instalments due to be paid into the account. Queensland is an exception as its bilateral agreement allows the State to retain the interest for the purposes of the program. Table 3.7 shows total interest earned on accounts.

Table 3.7**Total interest earned on State/Territory accounts in 2005–06 (includes Commonwealth and State/Territory interest)**

State/Territory	Interest earned on NHT monies (\$m)	Interest earned on NAP monies (\$m)	Total interest earned (\$m)
New South Wales	0.92	1.17	2.09
Victoria	Not disclosed	Not disclosed	Not disclosed
Queensland	0.51	0.19	0.70
Western Australia	0.27	0.30	0.57
South Australia	0.62	Not disclosed	0.62
Tasmania	1.16	0.17	1.33
Northern Territory	Not disclosed	Not disclosed	Not disclosed
Australian Capital Territory	0	0	0
Total	3.48	1.83	5.31

Note: Interest shown for South Australia is for 2004–05 NHT funds only.

Source: ANAO analysis of State/Territory Agency Reports to the Joint Team

3.54 The Victorian Department of Sustainability and Environment (DSE) did not accrue interest on funds held within SHA. These funds are managed according to Victorian Department of Treasury procedures and guidelines. As a result, no interest is earned by DSE on these funds; rather any interest would accrue to the Victorian Department of Treasury. Advice from DSE is that it can not establish a separate bank account for NAP, NHT and National Landcare Program funds, as this would contravene Victoria's *Financial Management Act 1994*. Nevertheless, interest earned by the Victorian Government on Australian Government funds would have been substantial. However, the lateness of the Australian Government payments into the SHA in 2005–06 meant that the Victorian Government effectively underwrote the Australian Government's payments to the regions for that year. For NHT 3 it would be appropriate for Victoria to be on the same 'footing' for offsetting interest as the other States.

3.55 While appreciating that bilateral agreements need to be tailored to the outcomes of intergovernmental negotiations, it would be desirable to achieve greater consistency in the bilateral agreements negotiated for NHT 3 and more emphasis on compliance with their requirements. Compliance with bilateral agreements should, in the first instance, be a matter for JSCs and then the NRM Ministerial Council. However, the Joint Team may also wish to consider

introducing sanctions (such as withholding funding for state projects) for persistent non-compliance with the bilateral agreements in the future.

Recommendation No.3

3.56 The ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry give greater priority to addressing compliance with bilateral agreements with particular attention to be given to encouraging State/Territories to:

- (a) provide audited financial statements (acquittals) to indicate that funds have been spent for their intended purposes;
- (b) return unspent funds remaining in State/Territory single holding accounts or offset these funds against future allocations; and
- (c) disclose interest earned and its use in accordance with the bilateral agreements.

Agencies' response

3.57 Agreed (See *Appendix 2* for the full response)

Accounting practices and financial reporting by regional bodies

3.58 Since 1 January 2005, Australian Accounting Standards have been restructured to harmonise with international standards. The objective is to promote comparability among the financial reports of Australian entities. While different regional bodies have different legal status, the similarity in functions would suggest reasonably close financial reporting arrangements across regional bodies could be expected to allow comparisons of financial performance. Such information is important where NHT 2 and NAP funding forms a significant portion, and often the majority, of regional bodies' funding, to allow the Joint Team and State/Territories to monitor the risk of investment in the region.

3.59 The ANAO identified significant differences in the accounting policies and practices of regional bodies. The main differences were the:

- variable basis for preparing accounts—one regional body prepared its financial statements on a cash basis (it had revenue in excess of

\$6 million) and another region stated that it prepared its accounts on a 'modified-accrual basis of accounting';

- level of detail of financial information—detail ranged from comprehensive audited general purpose financial reports with full notes and disclosures for the statutory authorities to one non-statutory region that simply prepared an un-audited operating statement; and
- accounting policy differences for recognising grant revenue—some regional bodies recognise funding as revenue and others recognise it as a liability until expended.⁶⁰

3.60 These differences were mainly due to the governance structures and guidance provided by the relevant State agencies. The ANAO found that those regional bodies incorporated as statutory bodies generally addressed accounting requirements best. They are required to prepare general purpose financial reports, including providing details of commitments and contingent assets and liabilities, that are audited by the relevant State Auditors-General. Regions that are not statutory authorities generally receive limited financial guidance and have no such requirement to prepare comprehensive reports. As a consequence, many of these regions present limited financial information in the form of special purpose reports.⁶¹

3.61 The Joint Team, in consultation with JSCs, should ensure a minimum standard of accounting practice across all regions so that objective comparison of financial performance can be made. This is particularly important in light of the risk of insolvency that some regions face, as discussed earlier in this chapter.

Conclusion

3.62 Governance arrangements have been subject to substantial review and improvement since the issue was raised in the previous 2004–05 ANAO audit. Improvements have included formalising arrangements, independent evaluation and the development of a regional governance checklist. The

⁶⁰ In 2005–06, one region in WA changed its accounting treatment of grant funding received but not yet spent in order to 'bring the statements in line with accepted government accounting practice'. This change in accounting policy added \$1.8 million of prior year grant funding to bring revenue to \$16.8 million in the year of the change.

⁶¹ Special purpose financial report means a report other than a general purpose financial report (per AASB 101). When a financial report is audited, the auditor ordinarily includes a statement as to whether the financial report is 'special purpose' or 'general purpose'.

Australian Government Joint Team, State agencies and State Audit Offices have all assisted in improving the delivery of investment in NRM across Australia.

3.63 Nevertheless, significant delays in payments continue to be an ongoing issue, impacting on the implementation of the programs. The Joint Team is proposing to introduce more streamlined cash management practices for NHT 3. However, the ANAO considers that stronger monitoring is needed to manage and mitigate the risk of payments being delayed to the regions and funds accumulating in State/Territory Accounts. Breaches of the bilateral agreements have also been identified. These include examples where particular States/Territories have:

- not maintained a discrete and transparent SHA,
- released program funds from the SHA without appropriate approvals;
- not provided audited financial statements (acquittals) to indicate that funds have been spent for their intended purposes;
- not offset unspent funds (valued at \$6.1 million); and
- not disclosed interest earned or its use in accordance with the bilateral agreements.

3.64 Action is required to address these breaches and ensure that appropriate controls are put in place to achieve greater consistency and compliance with the bilateral agreements for NHT 3. Otherwise, the value and credibility of bilateral agreements is significantly compromised to the detriment of the regions and their capacity to deliver the program outcomes. Standardising the financial statements across regions would also allow greater comparability and disclosure of the use of Australian Government funds.

4. Monitoring, Evaluation and Reporting on Performance

This chapter discusses the Joint Team's monitoring, evaluation and reporting of the progress made against the objectives of the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality.

Introduction

4.1 Performance monitoring, evaluation and reporting are essential for determining the extent to which agencies' outputs and administered items contribute to the achievement of the program outcomes.⁶²

4.2 Between 1996–97 and 2004–05, three separate ANAO performance audits⁶³ found shortcomings in the implementation of performance monitoring in NRM and environmental programs. In summary, these audits found that there was no effective outcomes reporting and recommended:

- intermediate outcomes⁶⁴ be implemented as an integral part of accountability arrangements (because of the long lead times for outcomes);
- performance indicators be developed and applied;
- data be validated to provide an assurance of its accuracy and completeness;
- systems be developed to support the collection and collation of data; and
- reporting to Parliament and key stakeholders be outcomes focused.

4.3 The Joint Team agreed to these recommendations.

⁶² Australian National Audit Office, *Better Practice Guide: Administration of Grants*, 2002, p.57 and Department of Finance and Administration, *Performance Management Principles*, 2003.

⁶³ Audit Report No.36 1996–97, *Commonwealth Natural Resource Management and Environment Programs*; Audit Report No.43 2000–2001, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust* and Audit Report No.17 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*.

⁶⁴ Intermediate outcomes are more specific medium-term impacts (e.g. trend data, targets or milestones) below the level of the planned outcomes. A combination of several intermediate outcomes can at times be considered as a proxy for determining the achievement of outcomes or progress towards outcomes. Available from <pmc.gov.au/sccountability/budget/2005–06/pbs/glossary>. [accessed 28 November 2007]

4.4 Within the context of the above findings, the ANAO reviewed the framework for measuring the programs' effectiveness as well as the Joint Team's monitoring, evaluation and reporting of NAP and NHT 2 investment performance. The ANAO also reviewed the Joint Team's progress in implementing the above recommendations.

4.5 During the course of the audit, the Joint Team committed \$2.2 million to a *Building Better Data* project which intends to improve performance reporting processes for NHT 3. Where appropriate, the application of this project is noted and discussed.

Framework for measuring the programs' performance

4.6 The NRM Ministerial Council endorsed the *National NRM Monitoring and Evaluation Framework* (M&E framework) in 2002⁶⁵ and was progressively included in the bilateral agreements signed by respective Ministers.

4.7 The design of the M&E framework recognised there would be a hierarchy of cause-and-effect relationships (from activities, to outputs, to intermediate outcomes and finally to the achievement of overall outcomes) that would lead to improvements in natural resource conditions over time. In summary, some of the key characteristics of the M&E framework are:

- a performance information system to provide day-to-day management of the programs as well as tracking and aggregating program outputs and expenditure;
- a set of key performance indicators (to be finalised after the agreement);
- an evaluation strategy to assess the appropriateness, effectiveness and efficiency of the programs and fulfil accountability requirements;
- regular reporting to the Joint Steering Committees and Ministers;
- A longer-term outcomes strategy to monitor and report on resource condition targets, including arrangements for collection of point-in-time and trend data required to assess progress against regional targets and management actions and to satisfy auditing of data quality; and

⁶⁵ The M&E framework correlates with the *National Framework for NRM Standards and Targets* which comprises the national natural resource outcomes and a minimum set of matters for which regional targets were required to be set in the regional plans as well as standards to assist in the achievement of the national outcomes.

- arrangements for review, as required, of individual targets, strategies and timelines under NRM plans.

4.8 The bilateral agreements also required the Australian Government and each State/Territory to jointly develop a strategy for implementing the principles of the monitoring, evaluation and reporting framework.⁶⁶ Each strategy was to 'guide the establishment of arrangements for monitoring the progress and achievements of the NAP and the NHT and to evaluate their effectiveness against their stated achievements'. To support this process, the Joint Team provided the State and Territory agencies with a strategy template in November 2003. The joint strategies were developed and implemented between 2004 and 2006. Partnership Agreements, signed between each regional body and the relevant State/Territory government set out the responsibilities of the regional bodies.

The challenge in finalising resource condition and trend indicators

4.9 The development of appropriate performance indicators for NRM programs has been an ongoing challenge. In 1996–97, the ANAO recommended that an appropriate set of performance indicators be developed as a high priority for the NHT.⁶⁷ Again in 2000–01, the ANAO recommended that a core set of performance indicators be finalised and linked to the allocation of sufficient resources for effective monitoring and reporting'.⁶⁸ The departments agreed to implement both recommendations.

4.10 As yet, the NRM Ministerial Council has not been able to agree to a set of indicators for measuring natural resource trends and conditions. An initial attempt by the NRM Ministerial Council's Monitoring and Evaluation Working Group (MEWG) could not reach a consensus on the indicators or the roles and responsibilities for resource condition monitoring. MEWG was disbanded in December 2004.

⁶⁶ The Joint Team has developed separate framework-based strategies for the national and the local streams of NHT 2.

⁶⁷ Australian National Audit Office, Audit Report No.36 1996–97, *Commonwealth Natural Resource Management and Environment Programs*, pp. xv–xvi and p. xxiv.

⁶⁸ Australian National Audit Office, Audit Report No.43 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, p. 28.

4.11 The task of developing suitable indicators was given to the National Land and Water Resource Audit in May 2005.⁶⁹ To date, 61 indicators have been identified and of these, seven have been agreed by the Joint Team and State/Territory officials. Agreement on the remaining indicators is not expected before 30 June 2008—which is also the end date for the NHT 2 and the NAP. This means that the overall impact of the programs on natural resource management will not be known when the NHT 2 and NAP are finished in June 2008—even though these programs have been running for between five and seven years. Full implementation may take longer again.

An assessment of the monitoring and evaluation framework

4.12 Apart from the absence of a finalised set of performance indicators the design of the framework is generally sound. It has been improved since the NHT 1 and reflects key elements of the Department of Finance and Administration's *Performance Reporting* guidelines.⁷⁰ Consequently, the ANAO considers that the framework provides a reasonable basis by which performance could be measured and reported. The current priority is to finalise the indicators so that the Joint Team will have the capacity to report on the results of NHT 3.

Implementation of the framework

Validation of data

4.13 The ANAO's Audit Report No.43, 2000–01, *Performance Information for Commonwealth Financial Assistance under the NHT*, found significant weaknesses in relation to the validity of the output data reported. The data reported was a mix of actual and anticipated results, which reduced the level of assurance the Joint Team could offer Parliament and the public about the output data reported. The ANAO recommended that a consistent approach to data validation be made an ongoing priority. This was intended to encompass a robust data verification system as well as facilitating audits of a valid sample

⁶⁹ The National Land & Water Resources Audit was established in 1997 under the Natural Heritage Trust Act. The Audit collates data and information, and contextual social and economic information, on the status of Australia's natural resources. Sourced from <http://www.nlwra.gov.au/About_Us/index.aspx> [accessed 1 November 2007].

⁷⁰ The Department of Finance and Administration's *Performance Reporting* guidelines provide instruction on the design of performance management systems and examples of better practice. Department of Finance and Administration, *Performance Reporting*, 2003, available from <www.finance.gov.au> [accessed 16 July 2007].

of data supplied by proponents. The Joint Team agreed to this recommendation. However, in 2004–05 the ANAO noted that performance information reported was ‘largely based on estimates rather than actual data’.⁷¹

4.14 Under the current programs, regional bodies must report against a set of ‘standard’ outputs used for collation into the departments’ and NHT’s Annual Reports. For example, regional bodies report on ‘the area of land treated for soil erosion through exclusion fencing’ and ‘area planted to riparian native species’. However, the validation of the output data reported is limited to a ‘desk top review’ for anomalies or inconsistencies between regional output reports. There is no on-ground verification by the Joint Team or the States/Territories that the quantities reported by regions are correct.

4.15 However, the ANAO found that eight of the nine regional bodies interviewed during the audit engaged in some form of validation activity. The validation methodologies varied, due to the variety of delivery mechanisms regional bodies use, and ranged from auditing a structured sample to performing ‘spot checks’. For example, one region in Queensland (which primarily undertakes its activities through contracts) had implemented an independent audit of 20 per cent of all projects completed to ensure that they are completed in accordance with specified requirements. The final payment is withheld until the audit program is completed. Two regional bodies (which primarily undertake their activities in-house) had conducted ‘spot checks’ on project outputs.

4.16 Greater assurance of the accuracy of output data would be provided if all regional bodies validated the output data to a consistent standard before it is reported to the JSC and the Joint Team. To support the development of suitable validation processes in regional bodies, the Joint Team could provide guidance through a template or check list covering matters such as the statistical validity of the sample, the level of acceptable risk and the appropriate methodologies for particular types of activities. This would contribute positively to the quality of data being reported under NHT 3.

⁷¹ Australian National Audit Office, Audit Report No.17 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*, p. 92.

Systems for collecting and collating data from monitoring activities

4.17 In June 1998, the Joint Committee of Public Accounts⁷² commented that it was the responsibility of the Australian Government ‘to ensure that parties to the Commonwealth/State agreements provide compatible and comparable performance data to the greatest possible extent’. The Committee noted that, ideally, the use of common data collection systems would allow the easy transfer of data and minimise system costs.⁷³ In 2004, the Red Tape Reduction Taskforce Report⁷⁴ principles included ‘regional one-stop-shop reporting’, which aligns with broader State/Territory and Joint Team processes where possible. With programs that involve multiple partners and services providers, it is important to ensure that management information systems are sufficiently aligned and allow the business needs of all parties to be addressed. This is an important component of the ‘partnership’ in the delivery of programs.

4.18 Currently, the Joint Team collects performance management information for the NHT2 and NAP in a spreadsheet and uses a parallel mechanism for managing financial information, and tracking performance against milestones. State/Territories and regional bodies report through standardised spreadsheets. Although this is a simple system, it is cumbersome as the data collected through other mechanisms at the regional and State/Territory level must be transferred to the spreadsheets for reporting purposes. Multiple handling of data increases the risk of errors.

4.19 To address these issues, processes are being developed to streamline the collection of data from regional bodies to the State level. However, the capabilities of these systems to address all the business needs of partners vary. For example:

- Queensland has developed a system which covers all aspects of regional and State reporting (see Case Study 4 following);

⁷² The Joint Committee of Public Accounts was the predecessor to the Joint Committee of Public Accounts and Audit.

⁷³ Joint Committee of Public Accounts and Audit, Report No.362, *General and Specific Purpose Payments to the States*, 1999, p. 44.

⁷⁴ As discussed in Chapter 2 of this report, a Red Tape Reduction Taskforce was established by the NRM Ministerial Council to consider and report on the actions that could be taken by Government to streamline the regional delivery process. The report of the Taskforce identified seven principles for efficient regional program delivery and proposed ten actions in pursuit of those principles. *Report of the Natural Resource Management Community Forum*, Adelaide, April 2004, p. 23.

- Victoria has two systems—the State agencies have developed a system to capture activity data and the regional bodies have developed their own financial system to aid reporting; and
- South Australian regions have their own systems but report to the State through a single system.

Case Study 4—Queensland’s VISTA system

The Queensland Department of Natural Resources and Water receives approximately \$3.2 million in NHT financial assistance from the Australian Government and has developed the first integrated web-based system (VISTA) to manage performance information about NRM activities in Queensland.

The first phase of the system was released to regional bodies in December 2006. Regional bodies load project contracts and report against these online. The regional bodies also record output, target and financial information in VISTA, which they and the Joint Team can access in real time for their own operational purposes (including financial, performance and target reporting).

Four of Queensland's 14 regional bodies commented on VISTA through the ANAO's survey or during interviews. These four regional bodies indicated that VISTA is user friendly (relative to previous reporting tools) and offers a means of consistent reporting at the State level. However, it presently lacks the capacity to monitor and report at the outcomes level.

Source: ANAO analysis

4.20 The ANAO considers that there is a need to establish clear and precise business rules that will enable partners to integrate systems and avoid duplication of effort and to reduce the transaction costs of performance reporting. The *Building Better Data* project aims to improve information management systems for performance reporting by reviewing and streamlining performance reporting. This project will include:

- an assessment of the appropriateness of data currently collected;
- the effectiveness and efficiency of information management systems currently employed; and
- the use of data from the Australian Government perspective.

Using data to monitor progress against outcomes

4.21 Performance monitoring should provide information that enables an assessment of the impact, appropriateness, effectiveness and efficiency (value-for-money) of the investment. The ANAO's survey asked regional bodies whether the requirements for Australian Government reporting were clear, and resulted in meaningful information being reported. Of the 50

respondents, 30 disagreed or strongly disagreed with the statement.⁷⁵ Comments from these regional bodies included:

There is room for improvement in that the [outputs] reporting framework does not allow us to provide you with full information about what is being achieved as a result of the Australian Government funding.

It is all output based which is good but all NRM plans are outcome based.

Reporting requirements are clear but do not always result in meaningful information. They provide a good record of activity and outputs but do not provide a mechanism of linking actions to outcomes and contributions to achieving targets.

4.22 As noted by the regional bodies, the information captured through monitoring does not show what has been achieved. In particular, the data collected does not show whether:

- outputs actually contribute to the intended outcomes—for example, the *Report of the Independent Audit Group for Salinity 2005–06*⁷⁶ reviewed the regional bodies ‘salinity’ outcomes and found that without exception all regional bodies had set outcomes to maintain current levels of salinity rather than reverse or substantially improve salinity.⁷⁷ Further, the report found that far greater reductions in salinity levels had been achieved through investment in salt-interception schemes along the River Murray funded under the Murray-Darling Basin Commission’s *Basin Salinity Management Strategy* than under the regional stream of the NHT or NAP;
- outputs are generating perverse outcomes—for example, broad-scale planting of vegetation may provide benefits to landholders in one catchment in terms of reduced ground water recharge but could reduce the economic welfare of downstream users, by reducing the level of available water and increasing stream salinity;⁷⁸ and

⁷⁵ Of the remaining respondents, 12 regional bodies were neutral, seven agreed and one strongly agreed with the statement.

⁷⁶ Independent Audit Group for Salinity, *Report of the Independent Audit Group for Salinity 2005–06*, Murray Darling Basin Commission February 2007, pp. 57–58.

⁷⁷ The objective of the NAP was to ‘prevent, stabilise and reverse trends in dryland salinity affecting the sustainability of production, the conservation of biological diversity and the viability of our infrastructure’.

⁷⁸ Bathgate A, Woolley J, Evens R, McGown I, *Downstream benefits of salinity management: A case study for the Boorowa Catchment*, Contributed Paper to the 49th Annual Conference of the Australian Agricultural and Resource Economics Society, Melbourne, February 2004, pp. 14–15.

- the outputs completed had provided value-for-money solutions to natural resource challenges. However, some regions have been endeavouring to address this issue. For example, the Goulburn-Broken Catchment Management Authority's Annual Report 2005–06 discusses its approach to revegetation based on value-for-money considerations through the *Bush Returns* program. The report stated:

...tree-planting or direct seeding is labour intensive, expensive...Recent research has shown that there is much potential to increase native vegetation through natural regeneration...while the occurrence of natural regeneration sometimes depends on favourable climatic conditions, it is potentially a very cost-effective approach to increases in native vegetation...

4.23 Documenting and disseminating information on similar types of initiatives (with quantification of the costs and benefits) would provide a useful resource base for regions and enhance the value derived from the regional investments.

4.24 The absence of performance information regarding the cost-effectiveness of actions or insights into quantifiable benefits or unintended consequences from NHT 2 or NAP investments has not assisted in demonstrating the effectiveness of actions or investments through the programs. Monitoring by the Joint Team to date has focused on outputs achieved through the NHT 2 and NAP investment. However, output data alone only shows what has been done; it does not show what is being achieved against the objectives of the program.

Evaluations of the regional delivery model

4.25 Evaluation is an important part of performance management as the efficiency and/or effectiveness of the approach taken to achieve the Government's objectives is reviewed and this information can be fed back into decision making. The ANAO reviewed the evaluations conducted of the regional delivery model and their findings.

Evaluations conducted

4.26 In 2005–06, the Joint Team conducted, and made publicly available, ten evaluations in relation to the NHT and the NAP.⁷⁹ The programs were

⁷⁹ All ten evaluations are available from <<http://www.nrm.gov.au/me/evaluation/national.html>> [accessed 16 August 2007].

evaluated to see what was working well and what improvements could be made. The cost of the evaluations was almost \$1.4 million. Five of the ten evaluations included consideration of the outcomes achieved through the regional investment stream.⁸⁰ These were evaluations of the:

- significant invasive species (weeds) outcomes of regional investment;
- biodiversity outcomes of regional investment;
- salinity outcomes of regional investment;
- sustainable agriculture outcomes of regional investment; and
- coastal, estuarine and marine outcomes of regional investment.

4.27 As well as reviewing these evaluations, the ANAO reviewed other evaluations and reports prepared about NHT 2 and the NAP. For example, the Victorian Catchment Management Council produces a report card every five years reporting on the health of Victorian catchments. Also, the Murray-Darling Basin Commission releases an annual review of progress in addressing salinity throughout the Murray-Darling Basin by the Independent Audit Group for Salinity. In addition, each of the regional bodies prepares an annual report.

Findings of evaluations of the regional delivery model

4.28 The evaluations focused on process improvements, as the effectiveness of the programs was not able to be measured in any meaningful way. The *Evaluation of coastal, estuarine and marine outcomes of regional investment* noted that the delays in establishing the regional delivery model impacted on the capacity to evaluate the impact of regional investment:

...as regional investment has only been in place for three years, it is too early to establish any meaningful measure of effectiveness...⁸¹

4.29 Many of the Joint Team's evaluations commented positively on the increased organisational capacity and stakeholder engagement that had been achieved through the program investment to date. The evaluation report on biodiversity outcomes noted that some regions were confident about achieving

⁸⁰ The remaining five evaluations covered: current governance arrangements to support regional investment; the national NRM facilitator network; bilateral agreements for the regional component of the Natural Heritage Trust of Australia; Australian Government's *Envirofund*; and the National Investment Stream of the Natural Heritage Trust.

⁸¹ SMEC Australia Pty. Ltd, *Evaluation of coastal, estuarine and marine outcomes of regional investment*, 2006, p.4.

their outcomes. Some of the program evaluations made broad comments about the effectiveness of the investment. For example, the evaluation of coastal, estuarine and marine outcomes of regional investment commented that:

...there was a view that [NHT] investment is not yet at a level to effectively manage or reverse the perceived continual decline in coastal, estuarine and marine values over the long term. This comes from a widespread view that the rate of decline in coastal, estuarine and marine values caused by rapid population growth and resource exploitation is faster than any rate of improvement effected through regional investment.⁸²

4.30 The evaluation of biodiversity outcomes also expressed concerns that current levels of investment were insufficient to achieve their biodiversity targets. Regions that were already monitoring trends were still recording a decline in high-priority biodiversity areas and funding levels were regarded as being insufficient to impact on the threats or to reverse the decline. In most regions, current levels of investment were expected to achieve between 10–20 per cent of high-priority biodiversity targets.⁸³ Similarly, findings were made by *The Health of Our Catchments—A Victorian Report Card 2002* which stated that ‘efforts to protect and sustainably manage our natural capital are not keeping pace with the breadth of degradation symptoms’.⁸⁴

4.31 The ANAO considers that the evaluations were fair and balanced and provided a good basis for improving delivery of the programs. The evaluations were not able to report conclusively on the effectiveness of NHT 2 and NAP. At the time, the evaluations provided little evidence that there has been any substantial movement towards landscape scale repair and replenishment of natural resources as envisaged by the NHT or preventing, stabilising and reversing salinity trends as envisaged by the NAP. This is also supported by other published research as discussed previously in this chapter. Therefore, it may be necessary to re-focus NHT 3 investment to better target the highest priorities areas or critically important assets within the landscape.

⁸² op. cit., 2006, p. 4.

⁸³ Griffin NRM Pty Ltd and URS Australia Ltd, *Biodiversity Conservation in Regional Natural Resource Management: An Evaluation of the Biodiversity Outcomes of Regional investment—Overview Report*, 2006, p. 40. Also cited in Australian National Audit Office, Audit Report No.31, 2006–07 *The Conservation and Protection of National Threatened Species and Ecological Communities*, p. 114.

⁸⁴ Victorian Catchment Management Council, *The Health of Our Catchments: A Victorian Report Card*, 2002, as quoted in the Victorian Catchment Management Council, *Annual Report 2006*, p. 10.

Performance reporting

4.32 Performance reporting through an annual report provides Parliament and the public with an assurance that NHT 2 and NAP funds are used efficiently and effectively. Its purpose is to assist stakeholders and management to draw well-informed conclusions about performance and to contribute to sound decision-making. Candour in disclosure and action on performance information will add to credibility.⁸⁵ The ANAO reviewed the information available through published annual reports.

Annual Reporting requirements for NHT2 and NAP

4.33 The Joint Committee of Public Accounts and Audit recommended that ‘the Parliament and the public have ready access to reliable and up-to-date information about specific purpose payments and their specific results’.⁸⁶ The Joint Team’s reporting obligations for the programs are set out in the *Natural Heritage Trust of Australia Act 1997*, and the *Natural Resource Management (Financial Assistance) Act 1992*. These require a separate annual report on the NHT2 while the annual report of the NAP can be incorporated into the DAFF Annual Report.

4.34 To date, there have been three annual reports on NHT 2 with the latest published report covering the period 2005–06. The NHT’s *Annual Report 2005–06* was tabled in November 2007, some eleven months after the statutory deadline. Although the *National Heritage Trust Act 1997* is silent on the exact timeframe for preparation of the report, the *Acts Interpretation Act (1901)* requires the report to be prepared within six months.⁸⁷ The Joint Team has indicated that this delay is not likely to be repeated in subsequent years. One separate annual report was published for the NAP for 2002–03. Otherwise, reporting on this program has been limited to a very short synopsis within the DAFF Annual Report 2005–06.

⁸⁵ Department of Finance and Administration, 2003, op. cit.

⁸⁶ JCPAA, op.cit., p. 58.

⁸⁷ Section 34C of the *Acts Interpretation Act 1901* states that where an Act requires a person to furnish a periodic report to a Minister but does not specify a period within which the report is to be so furnished, that person shall furnish the report to the Minister as soon as practicable after the end of the particular period to which the report relates and, in any event, within six months after the end of that particular period. A copy of the report is to be laid before each House of the Parliament within 15 sitting days of that House after the day on which the Minister receives the report.

Quality of information available in the Annual Reports

4.35 The ANAO's 2000–01 audit of the NHT found that reporting focused on inputs and outputs rather reporting the progress achieved against outcomes.⁸⁸ For 2005–06, the DAFF and NHT Annual Reports remain focused on reporting inputs and outputs.

Outputs

4.36 Both reports provide a breakdown of expenditure by outcome and State/Territory. The NHT's Annual Report 2005–06 provides detailed reporting of outputs using four key output types. These are:

- resource assessment;
- planning;
- capacity building; and
- on-ground activities.

4.37 Against each output type there are a series of standard outputs and output units of measure. Table 4.1 provides examples of the standard outputs and output units of measure reported against each of the four output types.

Table 4.1

Standard output reporting

Output Type	Examples of standard outputs	Examples of output units of measure
Resource assessment	Investigations (survey, inventory and mapping and data analysis)	No. of biophysical studies completed
Planning	Resource management plans	No. of recovery or management plans for threatened species or ecological communities completed
Capacity building	Skills and training	No. of participants (in person days)
On-ground activities	Revegetation with native vegetation	Area (ha) of native vegetation established

Source: ANAO analysis of the *NHT Annual Report 2005–06*.

⁸⁸ Australian National Audit Office, Audit Report No.43 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, pp.26–27.

4.38 The output information reported describes the type and quantity of activities supported through the programs. The same four output types have been used in NHT Annual Reports from 2003–04 to 2005–06, although the standard outputs and output units of measure reported have, to some extent, varied between States/Territories and between years. The ANAO considers the reporting of outputs to be clear. For example, the Environment Annual Report for 2006–07 commented that the programs have ‘helped to protect over eight million hectares of wetlands, have treated over 600 000 hectares of land to reduce salinity and erosion, and have involved some 800 000 volunteers in on-ground conservation work’. However, as noted earlier in this chapter, it would be better if the outputs data reported were consistently validated.

4.39 The DAFF Annual Report 2005–06 aggregates NAP and NHT outputs and reports them from all four output types as ‘on-ground achievements’. Examples of on-ground achievements reported include ‘salinity control through drainage and ground water pumping across 57 000 hectares’ and ‘protection and enhancement of 4 300 hectares of wetlands’.⁸⁹

Outcomes

4.40 The *Annual Reporting Guidelines*⁹⁰ require annual reports to include an assessment of actual progress towards outcomes. Performance information that shows the specific impact of the outputs achieved on the programs’ outcomes should be included with a focus on the effectiveness of outputs in achieving the outcome.⁹¹

4.41 In 2000–01, the ANAO found that, due to the Annual Report’s input/output focus, reporting did not allow the reader to make an informed judgement as to the significance of achievements made, outstanding challenges, or overall progress of the NHT against the objectives.⁹² The ANAO recommended that the Joint Team give greater priority to documentation and balanced reporting that reflect both achievements and shortcomings, as well as discussing strategic risks and challenges and the strategies developed to

⁸⁹ Department of Agriculture, Fisheries and Forestry, *Annual Report 2005–06*, p. 38.

⁹⁰ Department of the Prime Minister and Cabinet, *Requirements For Annual Reports For Departments, Executive Agencies And FMA Act Bodies* s.11(1), 13 June 2007, p. 6.

⁹¹ Department of Finance and Administration, *Performance Reporting under Outputs and Outcomes*, September 2003, available from http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html [accessed 3 October 2007].

⁹² Australian National Audit Office, *Audit Report No.43 2000–01, Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, pp. 26–27.

address such matters. The Joint Team agreed to do this. The ANAO made similar comments again in 2004–05.⁹³

4.42 Both the 2005–06 DAFF Annual Report and the (draft) NHT 2005–06 Annual Report provided case studies and narratives about activities being undertaken and the changed behaviour and increased capacity of participants. However, the reported information lacked the necessary trend or percentage data or analysis needed to link the output(s) with actual progress towards the programs' outcomes. Further, the DAFF Annual Report 2005–06 reported prospective or intended outputs and outcomes rather than actual outputs and outcomes. For example:

...by mid-2008, the Murrumbidgee Catchment Management Authority will complete around 750 kilometres of riverbank revegetation. This work, together with targeted structural works for stream bank and gully erosion, will achieve a ten per cent reduction in the average sediment load at Wagga Wagga, or around 60 000 tonnes per year-equivalent to five semi-trailer loads per day.⁹⁴

4.43 The information did not report on how prospective outcomes relate to the targets in the Murrumbidgee Catchment Management Authority's regional plan or the national outcomes. Nor does it give a sense of the priority of these actions or if the Murrumbidgee Catchment Management Authority has even commenced these activities.

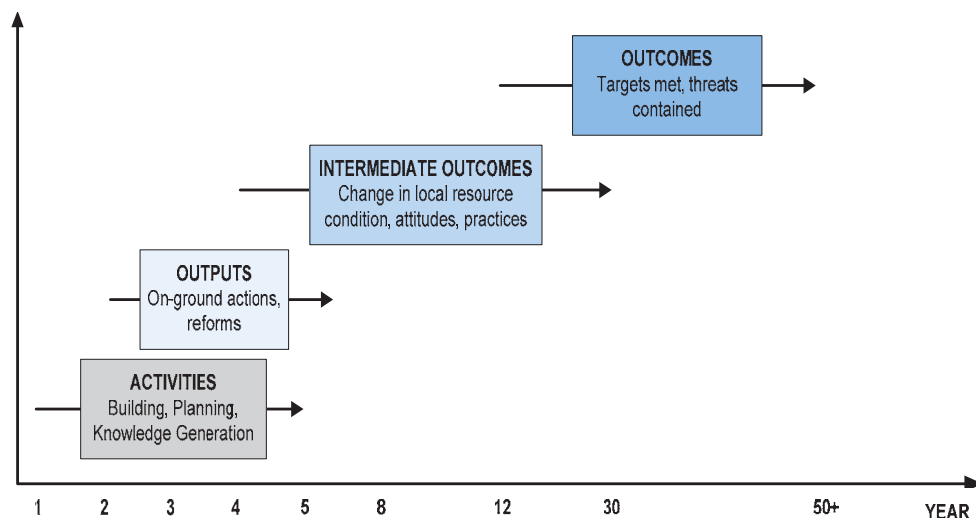
Intermediate outcomes

4.44 In 2000–01, the ANAO recommended the implementation of intermediate outcomes as an integral part of accountability arrangements for the NHT and future NRM and environment programs.⁹⁵ The M&E framework developed in 2002 included intermediate outcomes and these have been incorporated into current initiatives. The relationship between the national outcomes, intermediate outcomes and regional bodies' activities (outputs) is illustrated in Figure 4.1.

⁹³ Australian National Audit Office, Audit Report No.17, *The Administration of the National Action Plan for Salinity and Water Quality*, p. 17.

⁹⁴ *Department of Agriculture, Fisheries and Forestry Annual Report 2005–06*, p. 37.

⁹⁵ Australian National Audit Office, Audit Report No.43 2000–01, *Performance Information for Commonwealth Assistance under the National Heritage Trust*, Recommendation No.4, p. 79.

Figure 4.1**Relationship between outputs, intermediate outcomes and outcomes**

Source: Natural Resource Management Ministerial Council

4.45 The Joint Team refers to three types of intermediate outcomes:

- change in attitude and practices of resource managers;
- aggregate changes in how the region/locality has been managed; and
- changes in the point of investment.

4.46 Given the timeframes envisaged in Figure 4.1, intermediate outcomes achieved through NHT 2 investment should be measurable. Through the *Building Better Data* project, the Joint Team intends to develop and trial a 'performance story reporting' methodology for reporting on outcomes. A performance story report summarises a 'slice' of an NRM project indicating what a program has achieved as well as how the achievements were made. The Joint Team advised that 'together these performance stories will provide a summary of the impacts and progress towards outcomes'. The Joint Team is now working with the States/Territories and the regional bodies to explore opportunities for performance story reports.

4.47 At the time of the audit, the first performance story report was being developed, and as such the ANAO was not able to examine a completed example. However, there are a number of principles that should be applied to any meaningful performance auditing process. As a minimum, the report should provide an assessment of actual progress towards outcomes along with

an assessment of the cost-effectiveness of the actions undertaken. As noted previously, the reporting of intermediate outcomes should advise on the progress made towards the conservation of a critical national asset and on the level of behavioural change relating to the conservation of the asset, such as fresh water, high quality soils etc. In doing so, the report should:

- be balanced—it must evaluate progress towards outcomes through consideration of what investment has achieved and what investment has not worked (and why);
- provide lessons learned as well as insights into quantifiable benefits or unintended consequences, which can be fed back into the review and development of regional level targets;
- use trend analysis based on causal relationships between actions and results to demonstrate the nature of the change claimed over time; and
- consider the value-for-money achieved, the costs and benefits of different approaches and the risks to outcomes.

4.48 The ANAO suggests that initial performance stories should focus on progress towards the achievement of specific NRM priorities and/or major national assets (such as the Great Barrier Reef, Ramsar wetlands⁹⁶ or the Murray-Darling Basin). Reporting against priorities or major assets provides a more meaningful view of the natural resource condition improvements achieved. In addition, reporting in this manner enables the achievements of regional investment to be considered alongside those achievements of national or local programs. This would support the comparison of the value-for-money of activities and the costs and benefits of different approaches.

Conclusion

4.49 Overall, the ANAO considers the information reported in the DAFF and NHT Annual Reports has been insufficient to make an informed judgement as to the progress of the programs towards either outcomes or intermediate outcomes.

⁹⁶ Under the *Environment Protection and Biodiversity Conservation Act 1999*, a Ramsar wetland is either:

- an Australian wetland on the List of Wetlands of International Importance kept under the Ramsar Convention; or
- a wetland declared to be a Ramsar wetland by the Commonwealth Environment Minister.

4.50 Priority should be given to improving the Joint Team's ability to monitor, evaluate and report reliably, effectively and efficiently in the lead up to NHT 3. Primarily, the Joint Team needs to give high-priority to the development and implementation of a process that will enable progress against outcomes to be reported and lessons learned to be drawn out in future annual reports. This should be considered within the context of the current negotiations for NHT 3.

4.51 The ANAO recognises the difficulties faced by the Joint Team in establishing such a process at this point in time given that the 56 regions have a diverse range of systems focused on addressing their own reporting needs. However, such a process will be necessary if any meaningful results are to be reported for NHT 3. The ANAO considers that a staged approach may best address the practicalities of implementation of such a framework. The first step should be reaching agreement on reasonable and measurable indicators. This could be followed by a pilot study in regions that have already undertaken data verification and outcomes measurement and reporting. When the performance monitoring and reporting model is providing a reasonable assessment of outcomes, it could be extended for all remaining regions.

Recommendation No.4

4.52 To enable accurate reporting of progress against outcomes to be achieved in the Natural Heritage Trust or similar programs, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry develop and implement a performance measurement framework that includes:

- (a) a finalised list of core performance indicators to measure actual results;
- (b) clear and consistent business rules supporting the collection and collation of performance data;
- (c) dissemination of guidance to regional bodies regarding the validation of natural resource management output data; and
- (d) meaningful intermediate outcomes that may be used to demonstrate the cost effectiveness of natural resource management actions, the conservation of major national assets and behavioural change achieved through the programs.

Agencies' response

4.53 Agreed (See *Appendix 2* for the full response)

4.54 To assess progress made in this area, the ANAO will consider conducting a follow-up audit to assess progress towards outcomes for NHT 3. Such an audit will be considered within the context of future Audit Work Programs.



Ian McPhee
Auditor-General

Canberra ACT
7 February 2008

Appendices

Appendix 1: Summary of Regional Bodies' Responses to the ANAO's Survey

The table below provides a summary of the quantitative and qualitative responses received for the ANAO survey of NHT/NAP regions. Fifty responses were received from the 56 regional bodies. Each respondent was asked to rate statements on a scale from strongly agree to strongly disagree and invited to make further comments.

Quantitative and qualitative results for survey of regional bodies

Question Three ⁹⁷	The initial results expected by the Australian Government were realistic and achievable for your region				
Survey response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Percentage of survey responses	4	46	28	16	6
Examples of responses	<p>The results expected by the Australian Government have changed over time requiring a constant and unhelpful process of adjustment, and require a level of specificity that does not record with reality.</p> <p>In terms of outputs—the delivery or implementation of on ground and downstream programs—yes, achievable. In terms of outcomes—the sustainable management, completely unrealistic.</p> <p>On the whole, the objectives outlined in the Bilateral Agreement were realistic and to a considerable extent, have been achieved in our region. There are, naturally, areas reflecting arguably overly optimistic results (for example 'to reverse degradation') and although results have been achieved, perhaps not to the extent outlined in the initial objective statements.</p>				

⁹⁷ Questions One and Two asked regional bodies whether they received NHT 2 and/or NAP funding.

Question Four	Sufficient resources have been provided to your region to achieve significant progress against the key priorities in your catchment or regional action plan					
Survey response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	
Percentage of survey responses	4	28	28	30	10	
Examples of responses	Progress against resource condition impossible to assess. The short answer would be yes in terms of being able to strategically spend our allocation in the timeframe we're contracted to deliver on. Long term answer would be no, not by a long shot. We have not enough dollars or people to do the job that has to be done. We have started off small and are growing as more and more community and commercial partners come on board with strategic focus. To date the funding has met our capacity to deliver, and where it does not we are investigating alternative funding sources.					
Question Five	Guidance and information from the Australian Government has been clear and helpful in assisting with matters such as regional planning and investment					
Survey response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	
Percentage of survey responses	10	32	24	20	14	
Examples of responses	Avoiding micromanagement has been an ongoing challenge, probably only achieved in the last phase of NHT. Unfortunately this year, it has been difficult to extract out of our 'investor' reps exactly what it was that the Australian (and Victorian) governments actually required. A very painful process which can generally be attributed to inexperienced staff. 'This has improved over the past three years with the requirements of our investment strategy document becoming clearer and better refined. A lack of clear information regarding assessment criteria for Strategic Reserve funds has made it difficult to develop and present projects appropriately.					

Question Six	The level of scientific knowledge and technical data available has been adequate for developing plans, investment strategies and measurable NRM targets in your region				
Survey response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Percentage of survey responses	0	24	32	34	10
Examples of responses	<p>There are many data gaps in our region that compromise our ability to deliver best on ground outcomes.</p> <p>There is a real lack of baseline data for this region and where data exists it is in a multitude of formats. Many of this CMA's projects have entailed collecting regional baseline data. There may also be scientific knowledge within agencies but it is generally not clear where to look to find it, even if the agency is a partner.</p> <p>Not enough data available. We have struggled to gain data from State databases/or use them as baselines. Also there has not been a large amount of Department conservation work in the area.</p>				
Question Seven	Payments from the Australian Government have been made to your NRM region at timely intervals to meet the cash flow needs of projects in your region				
Survey response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Percentage of survey responses	2	42	20	18	18
Examples of responses	<p>Australian Government has been fine, seems to get stuck at Joint Steering Committee level.</p> <p>Overall it has been OK but there are significant delays, e.g. we still do not have the last 30 per cent of our funding for 2006–07 and it's May 2007. The system is very inefficient. We are out of funds now and I cannot issue any on-ground works contracts until the last 30 per cent arrives.</p>				

Question Eight	Requirements for Australian Government reporting are clear and result in meaningful information being reported			
Survey response	Strongly Agree	Agree	Neutral	Disagree
Percentage of survey responses	2	14	24	50
Examples of responses	<p>Strongly Disagree</p> <p>Excessive detail is requested requiring staff time which be more productively used delivering projects. Again, requirements have changed over time, with some guidance and information only arriving at very late in the process. Some of the requirements are unnecessarily unclear and bureaucratic, and do not seem to focus on meaningful information.</p> <p>Disagree</p> <p>Reporting requirements are clear but do not always result in meaningful information. They provide a good record of activity and outputs but do not provide a mechanism of linking actions to outcomes and contributions to achieving targets.</p> <p>Neutral</p> <p>10</p>			
Question Nine	Information that describes successful and unsuccessful initiatives in others regions is readily available.			
Survey response	Strongly Agree	Agree	Neutral	Disagree
Percentage of survey responses	2	12	22	10
Examples of responses	<p>Strongly Disagree</p> <p>We do not share knowledge or products well and this is the single biggest weakness of the regional model. There is duplication, but some simple investment in state or regional level knowledge broking positions would improve this. There does not appear to be a readily accessible collection of case studies, best practice guidelines or policies. Access appears to be ad-hoc and relies on personal contact and/or research. A need for a central information warehouse clearly exists.</p> <p>Disagree</p> <p>New mosaic project on the web will help.</p> <p>Neutral</p> <p>4</p>			

Question Ten	Overall, the action supported by the NHT and/or NAP are having a positive impact on your region				
Survey response	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Percentage of survey responses	62	36	2	0	0
Examples of responses	<p>NHT funding has been an important foundation for coordinating the efforts of many organisations in NRM in this region. NHT funding has been able to be directed to priorities by the regional body, has been substantial and has been a long-lasting contribution.</p> <p>Much has been accomplished and there is much that is now possible based on the learning of the last seven years. The best that can be said is that in a few areas, conditions aren't quite as bad as they would have been otherwise. However, they are a drop in the bucket (our efforts that is) made worse by the drought.</p>				
Question Eleven	Please outline what you consider to be the greatest strengths of the current programs and their delivery to your region				
Examples of responses	<p>The commitment to involving the community in the planning and implementation of environmental care is our greatest strength. The NRM Boards are able to bridge the gap and 'translate' government policy/strength to meaningful and balanced outcomes on the ground and within communities.</p> <p>The community based focus is an obvious strength, particularly in our region. The scale at which we are able to work with community is one where relationships and trust can be established and these reap great long lasting rewards. This is strongly evidenced by our phone surveys and independent CSIRO studies. Also we have exponential participation rates in the programs delivered by the region. The other great strength is the on-ground focus, which is really what the community want to see anyway.</p> <p>The regional approach is the greatest strength but it is impacted on by draconian central control</p>				

Question Twelve	<p>Please outline what you consider to be the primary constraints limiting the effectiveness of the delivery of the program/s to your region: (more than one response could be selected)</p> <p>a) Inability to make significant progress because of drought or other weather-related constraints to undertaking 'on-ground' activities;</p> <p>b) Inadequate funding levels from the program/s to achieve the outcomes and targets within the investment timeframe provided for these programs;</p> <p>c) Difficulties in attracting suitably-skilled people; and/or</p> <p>d) Lack of access to or non-existence of relevant scientific information/data relevant at a regional scale</p>			
Survey response	a	b	c	d
No. of times selected	22	30	24	28
Examples of responses	<p>Season variation is something we have to deal with all the time and longer timeframes will allow this to be taken into account.</p> <p>The drought has impacted on the ability of producers to undertake investment as they struggle to stay in business. It has also meant that in some catchments there has been no flow to enable water quality monitoring to be carried out.</p>	<p>Lack of NRM program 'block funding' provided through approved Catchment and Investment Plans.</p> <p>NAP constraints on funding part of the catchment produced skewed investments and very difficult reporting requirements.</p>	<p>Another is the difficulty of retaining staff (i.e. not just attracting them). We just get them trained and useful and then they leave. We are lucky if we keep them a year—the fact that we can only provide short-term contracts is a significant impediment.</p> <p>Staff turnover is a bigger factor than recruitment... We can't compete with mine wages!</p>	<p>Data gathering is always a problem. To deliver reliable, accurate data, which is good quality, is expensive. The model created means that you may have to use surrogates, or alternatively use information gathered by practical means which you then enhance by choosing where you need to gather data in a more scientifically rigorous format.</p>

Appendix 2: Response from the Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry



Australian Government

Department of the Environment, Water, Heritage and the Arts

Department of Agriculture, Fisheries and Forestry

Ms Sheila Bird
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Bird

Thank you for your letter of 30 November 2007 offering the Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry the opportunity to formally comment on the ANAO's *Proposed Audit Report on the Administration of the Regional delivery Model for the Natural Heritage Trust (NHT) and the National Action Plan for Salinity and Water Quality (NAP)*. Enclosed is the formal response which represents the comments of both Departments.

The Departments agree with the intent in the recommendations in the report and consider they provide a constructive basis for the design of any future regional delivery arrangements for Australian Government natural resource management programs.

The Departments have several projects currently in progress that are in line with the intent in the report's recommendations. Trialling of 'reporting on the impact and appropriateness of NRM investments by outcomes' has commenced with 13 'Performance Story Reports' in progress in all states and territories. The first such report is now available.

I wish to thank you and your team for fostering the positive working relationship between the ANAO and the AGNRM Team and the constructive approach the ANAO has taken during its review of the regional delivery model.

Yours sincerely

Anthea Tinney
A/g Secretary
Department of the Environment,
Water, Heritage and the Arts

Dr Conall O'Connell
Secretary
Department of Agriculture,
Fisheries and Forestry

10 January 2008

11 January 2008

Level 1, 7 London Circuit, Canberra City ACT 2601 or GPO Box 858 Canberra ACT 2601
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Summary

The Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry broadly accept the key findings of the report, noting that there have been further developments since it was prepared, including the development of a comprehensive outcomes based reporting framework and a revised Monitoring, Evaluation, Reporting and Improvement national framework which support practice change in line with the key recommendations. The report acknowledges that 'progress in implementing improvements in administration since the previous Audit report' has been comprehensive and well-focused on significant risks but that further work in this area is required leading into the next Natural Heritage Trust (NHT 3) program. Issues raised in the ANAO report and its four recommendations will continue to be taken into account in any future arrangements for regional delivery of natural resource management programs.

The regional delivery model is still relatively new and the Departments in partnership with state and territory governments and regional bodies have continually sought to improve the model over time. Given the scope of this exercise and the large number of players involved this will take time. Actions are currently underway to improve monitoring and evaluation of outcomes and sharing the knowledge legacy of the programs, such as strengthening the measure of intermediate outcomes through utilising reports by outcomes (Performance Story Reports).

The Departments note that the audit findings are positive with regard to the general approach to regional delivery with targeted recommendations to improve certain aspects that will benefit future regional delivery of natural resource management programs. The Audit report notes that program delivery arrangements have evolved and are now, on the whole working well. However, the Departments agree that there are some areas that could be strengthened. The report is, overall, a reasonable assessment of the strengths of current arrangements and those areas which require further attention.

General Comments

The Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry agree with the intent in the Audit report's recommendations and consider that the recommendations provide a basis for strengthening future program delivery. It is noted that both the current phase of the Natural Heritage Trust and the National Action Plan

for Salinity and Water Quality programs will conclude at the end of June 2008. The Australian Government is currently considering arrangements for programs to support natural resource management after the current programs conclude and where it makes sense to do so, the recommendations of this Audit Report will inform the design of new arrangements.

The approach taken by the two Departments to the regional delivery model and its administrative arrangements is unique – in particular the establishment of the Australian Government Natural Resource Management (AGNRM) team (a joint Division between the two Departments to oversee delivery). The approach has been and is adaptive, and continues to evolve in ways that are consistent with the intent of the recommendations of the Australian National Audit Office report.

Investment by the Australian Government in natural resource management through regional delivery arrangements has brought together industry, communities and government in 56 natural resource management regions that cover the Australian continent. These groups together are developing and implementing integrated natural resource management regional plans that focus on agreed priorities and regionally relevant solutions consistent with state wide natural resource management objectives at the land and water scape scale and draw on the best available technical, scientific and governance support. Regional natural resource management groups are working hand in hand with state, territory and Australian government institutions and organisations to improve complementarity and consistency between national programs.

Funding programs

The Australian Government invests in natural resource management outcomes through a range of programs, including the Natural Heritage Trust, the National Action Plan for Salinity and Water Quality, and the National Landcare Program. The design of these programs recognises that achievement of outcomes for natural resource management is a long-term process and that the scale of natural resource management change required is large. Longer-term outcomes to be achieved through regional delivery include improved resource manager and institutional capacity for resource management, improvement in industries' contribution to ecological sustainable development and protection, and enhancement and/or recovery of environmental and natural assets.

Governance

The adaptive management approach to regional delivery under the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality is coupled with a governance structure that features:

- an Inter-Governmental Agreement between the Commonwealth and all States and Territories for the National Action Plan for Salinity and Water Quality;
- bilateral agreements with the states and territories;
- Joint Steering Committees made up of state/territory and Australian Government representatives for each state and territory; and
- joint delivery by the Australian Government Departments.

Regional governance is maturing in most states where state auditor-general processes and development of 'good governance guides' or governance review processes are supporting improvement. These experiences will continue to be used to promote good governance to all regions.

Outcomes achieved

Ideally, our monitoring, evaluation, reporting and improvement activities for natural resource management investment programs should: manage program implementation risk; identify the state and trend in condition of natural resources; and assess the impact, effectiveness, efficiency and appropriateness of our natural resource management investment.

Governance and project reporting in the first years of the regional delivery model relied on careful recording of expenditure, inputs and outputs at all levels of the investment programs. It has always been the view of both Departments that this is not an effective model for long term measurement of outcomes. At this point in the investment cycle for the natural resource management programs, intermediate outcomes (people and practice change, aggregate landscape or industry/community change and area of investment change) are being realised. The Australian Government in partnership with states/territories and regions is trialling a way of improving the reporting on intermediate and other outcomes from natural resource management investment. This will establish a more consistent way of identifying the intermediate outcomes that have actually been achieved and determine our

level of confidence that the longer term goals for improved natural resource condition will be achieved.

Knowledge

Knowledge management is central to the complex delivery arrangements for a program addressing two portfolio objectives and is being implemented in partnership with states, territories and regions. The knowledge management framework for the two programs includes a website, an internal joint Policy and Procedures Manual and newsletters for the facilitators and coordinators network. The Australian Government also supports forums enabling knowledge sharing among regions, for example the annual national Chairs forum held in conjunction with the Natural Resource Management Ministerial Council meeting.

Recommendations and Responses

Recommendation No. 1

Paragraph 2.16

To strengthen the management of risks to program outcomes, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry give priority to documenting and disseminating information regarding:

- (a) the cost effectiveness of investments in achieving results; and
- (b) lessons learned or insights into quantifiable benefits or unintended consequences from NRM investments.

Response:

Agreed.

The Departments in partnership with state and territory institutions take ongoing action to coordinate sharing of new knowledge about the effectiveness of interventions in achieving results. Partners such as Land and Water Australia have a significant role in this activity through their 'Knowledge for Regional Natural Resource Management Program' which aims to facilitate better links between regional natural resource management bodies and knowledge providers, and to assist regional bodies to better manage their information and knowledge.

Additionally, the Departments in partnership with the states and territories and regional natural resource management groups convene national forums of key stakeholders (Regional natural resource management bodies Chairs Forum, Regional natural resource management Chief Executive group, Facilitators and Coordinators Forum, Regional natural resource management bodies, Monitoring and Evaluation Managers etc) to ensure sharing of lessons learnt in the regional delivery of the programs.

Despite these initiatives, the Departments acknowledge the ANAO's recommendations about the need for improvement in relation to the sharing of insights and lessons learned. In response to this recommendation, the Departments have recently reviewed the national Monitoring and Evaluation Framework documents and they are now in a final draft stage for approval. The revised 'National Natural Resource Management Monitoring Evaluation Reporting and Program Improvement Framework' identifies a cycle of learning and improvement through identification of expected and unexpected outcomes from investment. The key elements of the revised Monitoring Evaluation Reporting and Program Improvement framework include monitoring for resource condition, monitoring for program performance and knowledge and information management, including development of standards and protocols.

Further consideration will be needed on the practicality of measuring the cost benefit of environmental works under the program.

Recommendation No. 2

Paragraph 3.40

To provide greater transparency and efficiency in the management of funds for regional investments, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry, in developing bilateral agreements for the Natural Heritage Trust (NHT 3) or similar programs:

- (a) clearly define the authority of the Joint Steering Committees over the release of funds and the management of Single Holding Accounts; and
- (b) streamline payments to regional bodies based on performance requirements set out in the agreed investment strategies.

Response:

Agreed.

Under the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality, most Joint Commonwealth-State/Territory Steering Committees have clear authority over the release of funds and management of the single holding accounts. Release of funds in most jurisdictions is based on evidence of satisfactory program performance, such as through quarterly or six monthly performance reports to the Joint Steering Committee. Those jurisdictions without clear authority for the release of funds are working to address this in any future natural resource management programs.

The Departments, with their state and regional colleagues, continually evaluate and take action to improve the streamlining of payments and will continue to do so in any future program delivery.

The Departments have supported a range of work on governance issues relevant to regional delivery, including:

- An Evaluation of Current Governance Arrangements to Support Regional Investment under the NHT and NAP by Walter Turnbull. The evaluation included a 101 point checklist of corporate governance competencies for regional bodies. In 2006, the full toolkit was sent to regional bodies as a guide to good practice corporate governance.
- A regional risk management toolkit was developed by Walter Turnbull for Departmental staff to assess the risk of the regions. This is applied annually by the relevant team.
- A project to identify pathways to good practice in natural resource management governance is being undertaken by Charles Sturt University and the University of Tasmania managed by Land and Water Australia and will include corporate concepts of governance as one of three governance aspects (ethical, rational and operational).

A further project has also been undertaken by Charles Sturt University managed by Land and Water Australia with the aim of exploring and outlining key attributes and standards of a best-practice business process improvement model for quality assured regional natural resource management service delivery.

The governance capacities of regional natural resource management groups are building quickly in response to a range of measures to enhance their understanding of the responsibilities for transparency and accountability attached to public funding. The Australian Government considers good

governance as essential in managing the risks associated with regional delivery and will continue to invest in tools to assist improved governance arrangements.

Recommendation No. 3

Paragraph 3.52

To address compliance with bilateral agreements, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry give greater priority to monitoring compliance with agreements and encouraging State/Territories to:

- a) provide audited financial statements (acquittals) to indicate that funds have been spent for their intended purposes;
- b) return unspent funds remaining in State/Territory single holding accounts or offset these against future allocations; and
- c) disclose interest earned and its use in accordance with the bilateral agreements.

Response:

Agreed.

The Australian Government has a 'bilateral agreement' with each of the states and territories for regional delivery of natural resource management programs. The states and territories have contractual arrangements with their regional natural resource management groups to ensure provision of audited financial statements, return or offset of unspent funds and to disclose interest earned. The Australian Government through the Joint Steering Committee process ensures that these issues are discussed regularly and that required actions are complied with.

In states where regional natural resource management bodies are statutory organisations, such as Tasmania, New South Wales, Victoria and South Australia, the regional natural resource management bodies are required to comply with the state governance arrangements which include the recommended financial arrangements. In Queensland and Western Australia, the regional natural resource management groups are not statutory bodies but have similar financial requirements mandated through financial agreements.

In all states and territories, regions are supported in achieving a suitable standard of governance to appropriately manage Australian Government funds. Some specific examples include:

- training general managers and board members of some regions on their corporate governance responsibilities;
- Queensland's 'Business Improvement Review' of regional NRM group's governance in 2005, with a second round of reviews currently underway;
- the New South Wales Government tasked the Natural Resources Commission with recommending state-wide standards and targets for NRM, which regions will now incorporate; and
- the Western Australian Auditor-General reviewed their regional NRM groups' governance in 2007.

Most jurisdictions provide the Australian Government with an audited financial statement of the single holding account within three months of the end of each financial year. Targeted action to improve the receipt of acquittals has been undertaken in recent years, resulting in significant improvements.

Management of unspent funds from regional groups and other project proponents varies among jurisdictions, but the majority require unspent funds to be returned to the single holding account for reallocation or offset against future payments.

Where the single holding account is interest bearing, the reporting of interest earned on single holding account funds varies between jurisdictions. In some jurisdictions interest earned is reported as part of regular reconciliations of the account to the Joint Steering Committee and is used to fund activities consistent with program objectives. Any interest earned by regional NRM groups and other proponents is reported in quarterly financial reports and can be used by the region for the program it was earned from.

Where jurisdictions do not currently comply with this recommendation, action will be taken by the Australian Government to address this in future natural resource management delivery.

Recommendation No. 4

Paragraph 4.52

To enable accurate reporting of progress against outcomes to be achieved in the Natural Heritage Trust or similar programs, the ANAO recommends that the Departments of the Environment, Water, Heritage and the Arts and Agriculture, Fisheries and Forestry develop and implement a performance measurement framework that includes:

- (a) a finalised list of core performance indicators to measure actual results;
- (b) clear and consistent business rules supporting the collection and collation of performance data;
- (c) dissemination of guidance to regional bodies regarding the validation of natural resource management output data; and
- (d) meaningful intermediate outcomes that may be used to demonstrate the cost effectiveness of natural resource management actions, the conservation of major national assets and behavioural change achieved through the programs

Response:

Agreed.

The Departments consider they have made considerable advances in reporting progress given the difficulties associated with the long lead times for national outcomes, acknowledged by the ANAO. However, Departments recognise there is a need to better demonstrate appropriateness, impacts and effectiveness of investments by all investors and to ensure continuous program improvement through reporting on the assessment of evidence derived from Monitoring, Evaluation, Reporting and Program Improvement activities. This need is at all levels – regional, state and territory and national.

Monitoring arrangements to measure ‘state of’ and ‘trend in’ natural assets are being developed to support investment prioritisation as well as assessment of impacts of natural resource management investments. However, at this stage the intensity of resource condition monitoring will most likely not allow assessment of natural resource management investment impacts except for particularly well defined assets given the spatial and temporal scale issues. Program performance information (input, output and activity data) is being collected and aggregated from regional to national level and there are collection/aggregation efficiencies and quality deficiencies in the current program performance data arrangements.

The Australian Government, state/territory and regional Monitoring Evaluation Reporting and Program Improvement coordinators have

recognised the need to develop a monitoring, evaluative and reporting strategy that encompasses a range of measures including using data and information collected under existing arrangements; the collection of intermediate outcomes data (both qualitative and quantitative); reporting by outcomes by asset utilising multiple lines of tested evidence for all outcome areas; and establishing consistent outcome based reporting methods and intermediate outcome assessment approaches for use at regional level.

Performance indicators – The task of developing suitable resource condition and trend indicators was given to the National Land and Water Resource Audit in May 2005. To date, 61 indicators have been identified in participation with expert groups from states and territories. These indicators are being tested and refined in a nationally agreed process.

Additionally, ‘intermediate outcome’ indicator categories have been identified in the national Monitoring Evaluation Reporting and Program Improvement framework documents and the state of Victoria in partnership with the Australian Government, has set in place a process to develop agreed ‘intermediate outcome’ performance indicators across regions that complement the existing and revised national monitoring and evaluation frame work. Other states are following this development.

Clear and consistent business rules supporting the collection and collation of performance data – The performance data (output/input and activities) requested from national, state/territory and regional partners has been reviewed and a separation of governance and monitoring/evaluation data made and agreed. The reliance on ‘output’ data at the national level for program performance reporting has been reduced whilst still supporting output data collection at regional level, in particular, for ensuring compliance with contractual and audit arrangements (governance). A national trial is underway to establish the methods and standards for reporting by outcomes, ‘Performance Story Reporting’.

Dissemination of guidance to regional bodies regarding the validation of natural resource management output data – The Australian Government hosts a (now biannual) national Monitoring and Evaluation Forum comprised of state/territory representatives and regional monitoring and evaluation coordinators that shares processes and measures for collection and use of performance data. However, this and other forums need to more proactively progress the standardisation of ways to validate output data. Improved

validation of output data serves both governance and evaluation of program performance needs.

Meaningful intermediate outcomes that may be used to demonstrate the cost effectiveness of natural resource management actions, the conservation of major national assets and behavioural change achieved through the programs – The ‘Building Better Data’ project will significantly improve the evaluation of program performance by outcomes. The major component of the Building Better Data project is to ‘prove up’ an outcomes based evaluative approach to intermediate outcomes (Performance Story Reporting) that suits regional, state and national needs and builds confidence about longer term outcomes.

The National Natural Resource Management Monitoring and Evaluation Framework documents have recently been revised to increase focus on intermediate outcome evaluation, promote use of clear program logic in investment design and identify the need to report by outcomes on natural resource management investment.

The Australian Government is building capacity in regions, states and territories and national investors to take a standardised approach to building outcome based reports on natural resource management investments at the regional level that utilise intermediate outcome information. The Australian Government is also testing the development of outcome based reports (Performance Story Reports) in all states and territories. The first trial ‘outcomes’ based report for a major investment across two regions in northern Tasmania is now available.

What is a Performance Story Report?

Performance Story Reports provide a statement of progress towards a natural resource management goal and/or target, supported by evidence at each level of outcome provided for in the program logic.

A ‘performance story report’ summarises a ‘slice’ of a natural resource management project, program or strategy/plan, usually based on a major theme e.g.: water quality or a ‘longer term outcome for an asset’. As well as explaining what a program has achieved, a performance report/story also describes the causal links that show how the achievements were accomplished.

Performance story reports are structured around some form of outcome hierarchy, for example, a program logic model. They are supported by qualitative and quantitative data.

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