

T h e A u d i t o r - G e n e r a l

Audit Report No.31 1998-99

Performance Audit

The Management of
Performance Information for
Specific Purpose Payments

—*The State of Play*

A u s t r a l i a n N a t i o n a l A u d i t O f f i c e

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Canberra ACT
18 February 1999

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken an across-agency performance audit of the management of performance information for specific purpose payments, in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *The Management of Performance Information for Specific Purpose Payments—The State of Play*.

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

Yours sincerely



P. J. Barrett
Auditor-General

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

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 and Acronyms

1990–91 Survey	questionnaire-based survey of Specific Purpose Payments to or through the States and Northern Territory conducted by the ANAO in 1990–91
1994–95 Survey	questionnaire-based survey of Commonwealth-State Agreements for Specific Purpose Payments conducted jointly by the ANAO and JCPA in 1994–95
AAA	Australian Automobile Association
AFFA	Department of Agriculture, Fisheries and Forestry
A-Gs	Attorney-General’s Department
AGPS	Australian Government Publishing Service
AIDS	Acquired Immune Deficiency Syndrome
ANAO	Australian National Audit Office
ASL	Average Staffing Level
CSDA	Commonwealth-State Disability Agreement
CSHA	Commonwealth-State Housing Agreement
DOCITA	Department of Communications, Information Technology and the Arts
DETYA	Department of Education, Training and Youth Affairs
DHFS	(former) Department of Health and Family Services
DIMA	Department of Immigration and Multicultural Affairs
DISR	Department of Industry, Science and Resources
DoEH	Department of the Environment and Heritage
DOFA	Department of Finance and Administration
DPIE	Department of Primary Industries and Energy
DTRS	Department of Transport and Regional Services
DVA	Department of Veterans’ Affairs
FACS	Department of Family and Community Services
HACC	Home and Community Care
Health	Department of Health and Aged Care
HREOC	Human Rights and Equal Opportunity Commission

JCPA	Joint Committee of Public Accounts
JCPAA	Joint Committee of Public Accounts and Audit
RAS	Rural Adjustment Scheme
RBA	Reserve Bank of Australia
RTA	Roads and Traffic Authority (of NSW)
SAAP	Supported Accommodation Assistance Program
SPP	Specific Purpose Payment
Treasury	Department of the Treasury

Summary and Recommendations

Summary

An overview of performance information and SPPs

1. Performance information is a critical element of the wider management framework that includes setting objectives, strategies for achieving those objectives and mechanisms for collecting and using relevant data in a systematic way to assess performance. Performance information is not an end in itself but rather provides the basis for measuring and/or assessing whether a program is appropriate and performing to expectations and what opportunities exist to improve program performance.

2. Specific Purpose Payments (SPPs) are a classification of Budget appropriations involving some 90 programs and outlays of around \$18.7 billion per annum for purposes such as education, health, transport, industry assistance, housing and community services. For ease of presentation these programs are referred to as SPPs. The outlays involved represent some 15 per cent of total annual Commonwealth outlays. The audit covered 71 SPPs representing over 97 per cent of total SPP outlays. The majority of SPP agreements require systematic data collection and analysis by the Commonwealth and the States and Territories as an integral part of program administration.

3. In 1994–95, the Australian National Audit Office (ANAO) and the then Joint Committee of Public Accounts (JCPA) conducted a comprehensive survey of SPPs ('1994–95 Survey') which provided the base data for the JCPA Report 342—*The Administration of Specific Purpose Payments*. In June 1998 the Joint Committee of Public Accounts and Audit (JCPAA) updated the key issues from its previous report through Report 362—*General and Specific Purpose Payments to the States*. In 1997–98, the ANAO conducted a similar survey to the 1994–95 Survey to assess progress towards better practice across fourteen agencies.

The purpose of the audit

4. The objectives of the audit were to:
- identify and benchmark current practices in the management of performance information within SPP agreements;
 - document the lessons learned including better practice from different agencies;
 - provide a longitudinal analysis of progress since the last survey in 1994–95 covered in the JCPA Report 342; and

- provide practical guidance for the development and implementation of appropriate performance information systems and accountability.

Overall conclusions

Performance accountability

5. Overall, the audit of SPPs has indicated that considerable effort has been devoted by agencies to improving the quality of performance information in SPP Agreements and/or any associated documented administrative arrangements. The ANAO survey in 1997–98 found improvements since an earlier survey in 1994–95 in key areas of SPP design such as:

- the use of formal agreements;
- the inclusion of goals or intended outcomes (results);
- the definition of roles and responsibilities; and
- the specification of consultative arrangements to be followed before sanctions are considered or implemented.

6. Disappointing aspects from the survey were the limited inclusion, and use of, performance indicators, targets and milestones and program evaluation, as a management tool. Perhaps, not surprisingly, there is still room for improvement in measuring and reporting on performance against efficiency, effectiveness, quality and access and equity indicators in all agencies. This reflects the difficult nature of the task and the consequent need for ongoing review and development. Particular challenges in these respects remain in the former Department of Health and Family Services (DHFS)—now the Department of Health and Aged Care (Health)—and for the National Highway program in the Department of Transport and Regional Services (DTRS).

7. The ANAO recognises and understands the evolving nature of performance measurement and the difficulties in achieving consensus among parties in partnership arrangements with the States and Territories. As noted by Health,

the process of bargaining frequently involves trade-offs between the Commonwealth and the States and Territories about the obligations on States and Territories. This might include negotiations about the extent of reporting requirements in order to achieve State/Territory agreement.

The ANAO notes that most of the larger SPPs have performance measurement frameworks that are still under development. This is despite the fact that program management and budgeting has been in place for well over ten years and the progress that has been made in improving the quality of performance information at the national and State/Territory level

through the Steering Committee for the Review of Commonwealth/State Service provision (which reports to the Prime Minister, Premiers and Chief Ministers). There is evidence to suggest that, generally, agencies at the Commonwealth level can learn from the performance measurement reforms and practices in other jurisdictions—notably in Western Australia in recent years.

8. The ANAO recognises that performance information can be reported at different levels of aggregation depending on factors such as the level of funding and the importance to Government objectives. However, the ANAO considers that performance against SPP program objectives in SPP Agreements should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and
- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

9. The ANAO notes the focus on outputs and outcomes under the Accrual Budgeting Framework.¹ The challenge for agencies in the period 1999–2000 and beyond, is to demonstrate a disciplined commitment to improving departmental performance measurement (of which SPPs are a part) commensurate with Parliamentary expectations in a new accrual accounting-based environment. There is an expectation that the new approach will take some time to implement and operate with the required confidence of all stakeholders.

Financial Accountability

10. Financial acquittals are one important means by which the Commonwealth receives assurance that funds have been spent for their intended purposes. The ANAO concludes that this assurance has not been adequately addressed due to a deterioration in the rate of acquitting SPP funds compared with that indicated in the 1994–95 Survey. Some \$2.9 billion in 1995–96 funding (around 16 per cent of SPP funding surveyed) remained unacquitted and overdue, by at least sixteen months, at the time of the audit. Some 99 per cent of these unacquitted funds are in SPPs managed within the former DHFS.

¹ The terms ‘outputs’ and ‘outcomes’ are defined in the Glossary.

11. Sound cash management practice is also important because of the magnitude of annual SPP expenditure. The ANAO concludes that:

- the generally accurate short-term cash forecasts provided by agencies aids the management of the Commonwealth's cash balances by the Department of the Treasury (Treasury);
- better cash expenditure forecasts from the States and Territories would have enabled the Commonwealth to more closely match the provision of SPP funding to State and Territory needs which would have reduced Commonwealth short-term borrowing costs; and
- Commonwealth short-term borrowing costs could have been further reduced by some \$32 million during 1996–97 had agencies made smaller, in-advance payments more frequently without creating unnecessary uncertainty and significant additional administrative costs.

12. The ANAO estimates that in 1996–97 the full cost to the Commonwealth for administering its SPPs was \$68.8 million. This represented some one-third of one per cent of the value of SPPs. Analysis suggests that significant SPP administrative cost savings may be achieved by developing appropriate SPP performance indicators that better measure SPP efficiency.

Agency responses

13. Agencies generally agreed or agreed with qualification to the recommendations. Health agreed with qualification to recommendation 1, in that it disagreed with part (b) as it considers that performance indicators are not relevant to some SPPs. Health also agreed with qualification to recommendation 2. Health considered that performance information should be focussed on the broader programs or sub-programs of which its SPPs are a part. The ANAO also notes that there are a range of ways to focus performance information including at the broader program or sub-program level. However, given the billions of dollars paid to the States and Territories to achieve stated SPP objectives, SPP performance should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and

- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

14. DTRS and A-Gs disagreed with recommendation 8 on making smaller, more frequent in-advance payments to the States/Territories in line with better cash management. The Departments of Education, Training and Youth Affairs (DETYA) and Family and Community Services (FACS) agreed with qualification to the same recommendation. The disagreements and qualifications related primarily to the potential for deterioration in Commonwealth-State relations; the removal of a funding source for the States and Territories; or the difficulties in changing current agreements. However, the ANAO suggests that, where current agreements cannot be easily changed, agencies should consider the recommendation for future agreements. This was the view expressed by DETYA.

15. The ANAO notes that these disagreements and qualifications are not consistent with the ideal SPP model recommended by the JCPAA (in JCPA Report 342 and JCPAA Report 362) and therefore need to be considered carefully in future agreements.

16. Legal Aid and Family Services within the Attorney-General's Department (A-Gs) disagreed with recommendation 2(d) on the use of third parties to collect and monitor performance information as it had experienced difficulties with this approach. The ANAO has recommended that agencies at least consider this option, recognising that it may not be appropriate in all circumstances (particularly where a program is complex because of the number of different non-government parties involved). Agencies should carefully assess the circumstances for each SPP. However the suggested option may provide a mechanism for Commonwealth-State cooperation where there is a joint or agreed management framework for the resourcing, collection and application of performance information.

17. The Department of Finance and Administration (DOFA) broadly agreed with each of the recommendations made in the report, provided each can be implemented cost-effectively and consistently with performance management requirements under the accrual-based outcomes and outputs framework.

Key Findings

Performance Management and Accountability

Designing programs for improved performance

18. From the 1997–98 survey results, there are positive indications of good practice that is consistent with the set of ideal administrative features developed by the JCPAA. In some cases, the JCPAA principles have become standard practice. For example, where performance information is important, 97 per cent of SPPs surveyed indicated that the agencies concerned had defined the roles and responsibilities of the parties to the agreement, while 83 per cent showed they had concise, outcomes-oriented objectives. The survey also demonstrated that there have been positive trends towards good practice since the 1994–95 Survey. For example, 62 per cent of all SPPs surveyed now have formal agreements compared with 39 per cent in 1994–95. Further, 53 per cent of all SPPs surveyed in 1997–98 included consultative arrangements to be implemented before the application of sanctions, compared with 22 per cent in 1994–95.

19. The most disappointing aspect from the 1997–98 survey was the limited inclusion of performance indicators, targets and milestones in SPP Agreements and/or any associated documented administrative arrangements. In 1995, the JCPA recommended that performance information be provided for SPPs.² However, the use of performance indicators has declined by some twelve percentage points from the 1994–95 Survey. In Health, only eight of sixteen SPPs surveyed used performance indicators. This contrasts with other major agencies administering SPPs, such as DETYA (ten out of eleven SPPs have specific performance indicators); FACS (six out of nine SPPs have specific performance indicators); and DTRS (three out of four SPPs have specific performance indicators).³ There is also evidence to suggest that, generally, agencies at the Commonwealth level can learn from the performance measurement reforms and practices in other jurisdictions—notably in Western Australia in recent years.

² Joint Committee of Public Accounts (1995) *Report 342—The Administration of Specific Purpose Payments: A Focus on Outcomes*, Parliament of the Commonwealth of Australia, p. 99.

³ Another four DTRS programs were SPPs where performance information requirements are negligible. Health has no SPPs within this category although Base Medicare is a special case as performance information is classified by the Department as being not applicable. This is because the performance information for Base Medicare is managed through the Other Medicare Bonus Payments SPP.

Managing for Results

20. Audit Report No.21 1994–95 *Specific Purposes Payments to and through the States and Territories* found that ‘*pockets of good performance existed across SPP programs*’.⁴ Approximately one-quarter of those SPPs that required data from the States and Territories reported that they had problems with the quality of data returns. From the 1997–98 survey, it is clear that progress has been made to improve the quality of performance information used for management and accountability purposes, although this progress has been patchy across SPPs and uneven across agencies. Some agencies indicated in their 1997–98 survey responses that their SPPs are achieving their goals. However, the ANAO notes that, as many SPP performance indicators do not measure SPP effectiveness, there is no objective means of measuring or assessing program performance in such cases. This further suggests that the current performance information systems within agencies do not tell the full story as to performance achievement. It also supports the view that programs could be strengthened by better incorporating elements such as intermediate level outcome measures, targets and milestones if the ultimate outcomes cannot be measured within the reporting time frame.⁵

21. Particular improvements or steps to achieve improvements in measuring SPP performance results were noted in three of the agencies with the greatest responsibilities for SPPs—that is, DETYA, DTRS and Health.⁶ DETYA has made substantial progress in measuring the performance of SPPs covering schools and higher education. DETYA now has sufficiently accurate, reliable and valid performance information to compare national, and in some cases international, performance. While improvements can still be made to key indicators of performance (particularly in terms of learning outcomes), the ANAO considers that DETYA, in collaboration with the States and Territories, has made substantial progress towards answering the broad question of how efficient and effective total government funding has been in achieving the primary objectives set by Governments. Examples of good practice have been identified which provide the opportunity for adoption or adaptation by other Commonwealth agencies.

⁴ ANAO (1995) *Specific Purpose Payments to and through the States and Territories*, Audit Report No.21 1994–95, AGPS, Canberra, p. xii.

⁵ Department of Finance and Administration (1998) *Lessons Learned from Others: International experience on the identification and monitoring of outputs and outcomes*.

⁶ In considering agencies’ measures of performance, the ANAO considered performance information associated with: SPP Agreements, their documented administrative arrangements; research reports; and the broader agency program/sub-program context of which SPPs are an integral part.

22. In DTRS, the clear, measurable objectives set out for the Road Safety Black Spot Program and the ex-ante evaluation criteria originally built into the program have helped to give the program a strong focus on results. This contrasts with the National Highway program where the performance information regime could be considerably enhanced so that it is clearer as to whether each of the program objectives are being achieved—particularly in terms of demonstrating value for money from the Commonwealth investment in the national highway. The size of the investment also underscores the importance of ensuring that a cost effective performance information framework is put in place as soon as practicable.

23. The former DHFS had, over the past three years, made a substantial investment in improving its performance information framework relevant to programs in Health. However, progress has been slow—particularly in the acute care sub-program (which includes the Base Medicare and Bonus payments SPPs) and community services programs (including four SPPs that have been transferred from the former DHFS to FACS following the 1998 federal election). While recognising the difficult environment for Health programs, substantial improvements are necessary to bring most of its SPPs up to an adequate standard of accountability and to provide important management and performance information. Health is not alone in these respects. Although performance measurement has generally improved in Western Australia in recent years, an audit report into health services in that State identified difficulties in effectively measuring performance in health programs.⁷ Victoria's Auditor-General also reported similar difficulties.⁸ The ANAO recognises that acute care is particularly difficult to measure because of the heterogeneous nature of the services provided and the rapid rate of technological change within the medical industry.

24. Health considers that performance information should be considered in relation to the broader programs or sub-programs of which its SPPs are a part. The ANAO recognises that performance information can be reported at different levels of aggregation depending on factors such as the level of funding and the importance to Government objectives. However, because of the size of Commonwealth health funding (\$5.0 billion just for public hospitals alone in 1997–98) and the size of health sector to the economy (health expenditure represents an estimated 8.5 per cent of

⁷ Office of the Auditor-General of Western Australia (1998a) *Report on the Western Australian Public Health Sector*, Report No.3, p. 20.

⁸ Victorian Auditor-General's Office (1998) *Acute Health Services under Casemix: A Case of Mixed Priorities*, Special Report No.56, pp. 4–6.

Gross Domestic Product)⁹, performance against SPP program objectives in SPP Agreements should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and
- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

Evaluating and reporting performance

25. Evaluation is a critical, strategic tool used for measuring and/or assessing program performance. Evaluation of SPPs and reporting to the Parliament were recognised as important elements of accountability by the JCPAA. The ANAO survey has found that only 20 per cent of those SPPs surveyed (and that have been in existence for more than three years) have not been evaluated since the 1994–95 Survey. However, they represent some 30 per cent of the value (\$5.4 billion) of SPPs surveyed. Where evaluations had been conducted, the ANAO survey indicated they included an appropriate range of issues but greater consideration may need to be given to factors such as risk management and alternative delivery models in the future. Some of the key lessons learned from the ANAO analysis of program evaluations examined during the course of the audit were that quality evaluations can provide:

- a useful basis for establishing a quality performance information and monitoring regime;
- a focus on the measurement of results and the quantification or assessment of outputs and outcomes;
- a mechanism for establishing common ground and a common basis for collective action (including information sharing) amongst governments, service providers and/or partners; and
- a sound platform for redesigning programs to maximise value for money from the future allocation of public funds.

⁹ Australian Bureau of Statistics (1998) *Year Book Australia*, p. 302.

26. However, the survey indicated that SPP program managers were not taking full advantage of the findings from program evaluations and implementing administrative improvements.

27. In relation to reporting to the Parliament, the ANAO survey found that reporting SPP performance has marginally improved since the 1994–95 Survey. While the progress that agencies have made towards improving accountability for the management of SPPs is acknowledged, the ANAO considers that greater attention should be given to public reporting, particularly in terms of reporting instances of significant non-compliance with the conditions of SPP agreements. The ANAO notes that, under the Accrual Budgeting Framework, agencies will be expected to report achievement against intended outputs and outcomes. This should assist agencies to better account to Parliament and fully meet the requirements of the *Financial Management and Accountability Act 1997*. Section 44 of the Act requires that the

Chief Executive must manage the affairs of the Agency in a way that promotes the efficient, effective and ethical use of the Commonwealth resources for which the Chief Executive is responsible.

Incentives and sanctions

28. Incentives and sanctions are important mechanisms for encouraging compliance with the terms and conditions of SPP agreements and, specifically, to meet SPP objectives. Sanctions are however, usually a last resort option when negotiations have failed. On comparing the 1994–95 Survey results to those of the current survey, the ANAO found a 24 percentage point increase in situations where agencies considered that sanctions could have been applied. Overall, agencies were about twice as willing to apply the incentives available than apply the sanctions available. Where agencies applied either incentives and sanctions, they considered that they were effective at improving SPP performance or compliance. However, the Commonwealth is generally, and often understandably, reluctant to apply sanctions—particularly in circumstances that would adversely impact on the community, particular clients, other stakeholders or on Commonwealth-State relations generally.

29. The JCPA in 1995 and the ANAO in two earlier audits suggested that part of the solution may be for agencies to introduce a graduated range of sanctions which escalate with the severity of the circumstances.¹⁰ Although this approach has been implemented for the majority of relevant SPPs, 47 per cent of relevant SPPs (where sanctions have been applied in the last two years) have not.

¹⁰ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 63; ANAO (1993) *An Audit Commentary on Aspects of Commonwealth–State Agreements*, Audit Report No.6 1993–94, AGPS, Canberra, p. 16; and *Op. cit.*, ANAO (1995), p. 30.

30. While recognising that performance agreements are ultimately the responsibility of Ministers, the ANAO considers that there would be merit in agencies considering a wider array of incentives when advising on, and negotiating SPP agreements. The JCPA in 1995 recommended that SPPs focus on incentives for achieving performance targets rather than on sanctions for non-compliance. However, the ANAO found that only some 30 per cent of relevant SPPs (that is SPPs that have either been renewed, had the opportunity of being renewed, or commenced since the tabling of the JCPA's report) have done so. In particular, there would appear to be scope for increased consideration and application of financial incentives such as accelerated payments, and the sharing of at least part of any identified savings and, for larger SPPs, variations on the 'bonus' funding pool concept introduced by the former DHFS for Public Hospitals funding (where incentives are linked to the provision of performance data and/or achievement of performance targets and milestones).

Financial Management and Accountability

SPP Funding Acquittals

31. Annual financial acquittals provide the means by which the Commonwealth receives assurance that the SPP funding it provides to the States and Territories is spent in accordance with the SPP agreements. The ANAO found a significant deterioration in the rate of acquitting SPP funds from that in the 1994–95 Survey. Sixteen per cent of 1995–96, and 30 per cent of 1996–97, SPP funding have not been acquitted. Of the \$2.9 billion in 1995–96 funding for 8 SPPs unacquitted (and overdue by at least sixteen months at the time of the audit), some 99 per cent of these funds are in SPPs administered by Health. Some \$4.5 billion in 1996–97 SPP funding remains unacquitted. On a State-by-State basis, NSW and ACT have acquitted the greatest proportion of 1995–96 and 1996–97 SPP funding. The remaining States and Territory have each acquitted a substantially smaller percentage of SPP funding.

32. The ANAO recognises the difficulties experienced by Commonwealth agencies in obtaining SPP funding acquittals from the States and Territories. Although agencies may have the ability to withhold or delay SPP funding where acquittals remain continually overdue, agencies are generally reluctant to take such action as it could adversely impact on SPP beneficiaries. The ANAO considers that the use of appropriately targeted incentives (such as a payment from a 'bonus' funding pool within the program allocation) may encourage the States and Territories to submit SPP funding acquittals on time. In essence, there is a risk assessment that has to be made generally, or on a case-by-case basis.

33. The ANAO examined the various methods of acquitting SPP funds and found that:

- the Payment on Performance method is the preferable (cost effective) acquittal method (where performance indicators, targets and milestones have been appropriately defined and agreed by both the Commonwealth and the States and Territories) as it links payments more directly to the achievement of outcomes. In 1996–97, only four SPPs (accounting for less than half a per cent of total SPP funding) used this method of acquittal;
- if the Payment of Performance method is not possible, the Disclosure in Financial Statements method can streamline the SPP acquittal process where SPP funding constitutes a significant (material) proportion of income for the SPP recipient. In 1996–97, ten SPPs acquitted their funding using this method; and
- statements or certificates of expenditure are appropriate acquittal methods in the remaining situations. Some 88 per cent of relevant SPPs still acquit their SPP funding by either of these two particular methods.

34. The ANAO recognises that changing the method of acquittal and the time requirements of SPP acquittals may not be possible during the life of the current SPP agreement and/or applicable legislation. In such cases, the ANAO suggests that agencies consider these issues when SPP agreements are renegotiated and/or legislation reviewed.

Cash Management

35. SPP outlays represent some 15 per cent of total annual Commonwealth outlays. The ANAO has found that, while there have been some recent improvements in SPP cash management, positive cash savings for the Commonwealth can be achieved by:

- agencies improving the provision of accurate and timely cash forecasts to Treasury for all SPP payments, particularly those greater than \$5 million;
- reducing further the amount of unspent funds held by the States and Territories (some \$400 million at the end of 1995–96 and \$295 million at the end of 1996–97) by more closely matching the provision of SPP funds to State and Territory needs (regular cash expenditure forecasts provided by the States and Territories are one means by which this can be achieved); and
- making smaller, more frequent in-advance SPP payments than is currently the case. (The ANAO estimates that the Commonwealth's short-term borrowing costs could have been reduced by some \$32 million by this means during 1996–97 with insignificant additional administrative costs for those involved).

36. The ANAO recognises that, in most instances, changes to SPP payment schedules cannot be implemented during the life of the current SPP agreement or applicable legislation. In these circumstances, the ANAO considers that the recommended changes could be incorporated into any future SPP agreement or legislative review.

37. Improvements in cash management should not put at risk the cost effective achievement of SPP objectives. The States and Territories could be directly funded through an appropriate increase in Commonwealth allocations, as was recommended by the JCPA in 1995, if these funds are really needed to achieve SPP objectives. The achievement of better cash management practices may also be further enhanced through the introduction of agency banking from July 1999, particularly where they contain incentives for better practice.

Administrative efficiency and cost effectiveness

38. The ANAO estimates that the Commonwealth's cost of administering the 71 SPPs covered by the current audit was some \$68.8 million per annum involving over 550 full-time equivalent staff. This represents some one-third of one per cent of the value of SPPs in 1996–97. In addition, the Commonwealth funded some \$77 million in State/Territory administration costs in 1996–97.¹¹ The administrative costs identified by the ANAO compare favourably with the results of a national comparison of grant programs in 1997 which found that the ratio of administrative and support costs to total funds ranged from eight to 18 per cent.¹²

39. The ANAO found that, as expected, there was a strong positive correlation between the cost of administering SPPs and the amount of SPP funding. Consequently, the larger the SPP, the greater the administrative costs required to support its management. The ANAO also found some negative correlation between the cost of administering SPPs and the availability of SPP performance indicators measuring efficiency. Although correlation and regression analysis does not establish a cause and effect relationship, the regression results suggest:

- the existence of economies of scale so that an SPP with twice the level of funding tends to have less than twice the level of SPP administration costs. (This result would tend to support the proposition that broadbanding SPPs could contribute to SPP administration cost savings); and

¹¹ From 1997–98, the Commonwealth no longer separately funds State/Territory administration costs for the National Highway System and Roads of National Importance SPP (\$27.4m in 1996–97).

¹² Coopers and Lybrand Consultants (1997) *National Survey of Funding Programs*, p. 70.

- that an SPP with fully-developed efficiency indicators will tend to have SPP administration costs that are at least 20 per cent lower than an SPP with partially-developed or no efficiency indicators.¹³ (This result would tend to suggest that further SPP administrative cost savings can be achieved by developing appropriate SPP performance indicators that fully measure efficiency in the 44 SPPs valued at some \$16 billion that do not currently have them).

¹³ Refer to Appendix 7 for more specific information and calculations.

Recommendations and Responses

Some SPPs have been designed to compensate the States or Territories for lost revenue or additional expenditure or involve general purpose assistance to local government. These SPPs have negligible performance information requirements. As a result recommendations 1, 2, 4, 5 and 6 do not apply to these programs.

The ANAO sought responses to all recommendations from the following ‘key agencies’: A-Gs (including the Human Rights and Equal Opportunity Commission (HREOC)); the Department of Agriculture, Fisheries and Forestry—Australia (AFFA); the Department of Communications, Information Technology and the Arts (DOCITA), DETYA; DOFA; FACS; DTRS; Health; and Treasury. In addition, extracts of relevant sections were forwarded to the Departments of: Veterans’ Affairs (DVA); Immigration and Multicultural Affairs (DIMA); Industry, Science and Resources (DISR); and the Environment and Heritage (DoEH).

Recommendation The ANAO recommends that:

No.1

Para. 2.18

- a) agencies take into account the latest JCPAA SPP model features in the design of all new SPPs or where existing SPPs are being revised or re-negotiated; and
- b) core performance indicators, targets and milestones be included for new SPPs or when re-negotiating current SPPs other than those with negligible performance information requirements.

Responses

All key agencies agreed with this recommendation except DOCITA and Health which agreed with qualification and Treasury which did not comment. DOCITA noted that in some cases, such as one-time SPPs in the nature of a donation, performance indicators and targets may not be appropriate. Health disagreed with part (b) as the agency considers that performance indicators are not applicable to all SPPs.

Recommendation The ANAO recommends that agencies, where they have not already done so:

No.2

Para. 2.106

- a) ensure that, in the development of core performance indicators, they cover issues of effectiveness, efficiency, quality and access and

- equity as integral to the measurement and/or assessment of performance as soon as practicable;
- b) set a timetable to develop comparable data sets for performance in key areas of Commonwealth/State program administration that could be considered by appropriate Ministerial Councils or the Council of Australian Governments;
 - c) develop, in accordance with the agreed timetable and in consultation with the States and Territories, core performance indicators and related data sets that can be simultaneously used by the Commonwealth and the States and Territories to measure and/or assess performance over time;
 - d) consider options for the use of an independent third party to collect mutually relevant performance information and monitor performance; and
 - e) provide regular feedback to the States and Territories on the value, appropriateness and cost effectiveness of performance data supplied by them.

Responses

All key agencies agreed with this recommendation except Health which agreed with qualification; A-Gs disagreed with part (d); DTRS agreed with qualification to part (d); and Treasury which did not comment. Health agreed with qualification because it considers that performance information should be considered in relation to the broader programs or sub-programs of which its SPPs are a part. The ANAO notes that this is not consistent with the ideal SPP model recommended by the JCPAA (in JCPA Report 342 and JCPAA Report 362) that includes

*measurable performance indicators ... linked to and specified for each SPP program objective and basic data collection requirements ... identified for each performance indicator.*¹⁴

The ANAO also notes that there is a range of ways to focus performance information including at the

¹⁴ *Op. cit.*, JCPAA (1998), p. 57.

broader program or sub-program level. However, given the billions of dollars paid to the States and Territories to achieve stated SPP objectives, SPP performance should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and
- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

A-Gs disagreed with part (d) in relation to the Legal Aid and Family Services Program as it has had difficulties with the management of an independent third party to collect performance information.

**Recommendation
No.3
Para. 2.125**

The ANAO *recommends* that agencies ensure that well structured and conducted program evaluations commensurate with the materiality of the SPP concerned and the costs and benefits involved:

- a) are undertaken prior to the renegotiation of new agreements or at least every five years for SPPs without sunset clauses (where they have not been covered or subsumed within any other reviews);
- b) involve the States, Territories and/or other parties to agreements in the planning and management of the evaluation process; and
- c) include as key elements, issues such as: to what extent the program has achieved its outcomes; the adequacy of performance indicators, targets and milestones; how cost effective the program is; and how well risks to the achievement of identified outputs/outcomes have been managed.

Responses

All key agencies agreed with this recommendation except Treasury which did not comment.

**Recommendation
No.4
Para. 2.127**

The ANAO *recommends* that, consistent with the annual reporting requirements and as appropriate to the circumstances and scale of each SPP, Commonwealth agencies, where they are not already doing so, ensure that the following information is reported to Parliament:

- a) program goals (or intended outputs/outcomes), performance targets and strategies adopted to achieve them;
- b) actual achievements against program goals (or intended outputs/outcomes) and targets;
- c) constraints or limiting factors on achievement of goals;
- d) budgeted and actual resources utilised during the period;
- e) workload analysis and trends;
- f) results of any major reviews, consultancies, audits or evaluations;
- g) significant instances of non-compliance with the conditions of the agreement;
- h) significant amendments to the agreement since the previous report and their impacts; and
- i) legislative and other changes likely to affect the future operation of the program.

Responses

All key agencies agreed with this recommendation, except for A-Gs and Health which agreed with qualification, and Treasury which did not comment. Health's qualification relates to the requirements of part (h). Health made the point that amendments to an SPP agreement should only be reported if they involve changing the resources available under the agreement or the changes are likely to affect the achievement of outcomes.

Recommendation No.5
Para. 2.151

The ANAO *recommends* that, in future SPP Agreements, agencies:

- a) consider and advise on a range of incentives and appropriate graduated sanctions which are directly tied to the achievement of SPP goals, performance targets and milestones; and
- b) consider the scope for inclusion of financial incentives such as bringing forward SPP funding where program interests are being achieved, the retention of at least part of any identified savings and variations on the 'bonus' pool concept introduced for Public Hospital funding in Health so as to provide a stronger incentive for the timely receipt of performance data and/or achievement of agreed performance targets and milestones.

Responses

All key agencies agreed with this recommendation except for DOCITA which agreed with qualification, and Treasury which did not comment. DOCITA considers that incentives may not be appropriate where SPPs have specified funding levels or for small payments where the costs of administering incentive regimes would outweigh the benefits. The ANAO agrees that in the circumstances described by DOCITA, the ANAO would not expect agencies to apply this recommendation.

Recommendation No.6
Para. 3.23

The ANAO *recommends* that agencies:

- a) consider and advise on, for future agreements, the scope for paying and acquitting SPP funding on performance where appropriate performance indicators, targets and milestones have been defined and agreed by the Commonwealth and the States and Territories;
- b) where (a) is not feasible, consider using the Disclosure in Financial Statements method to acquit SPP funding where it constitutes a materially significant component of annual income for the SPP recipient; and
- c) press for future SPP agreements to require acquittals to be provided within six months of the end of the funding year and that the submission of

acquittals by the States and Territories are treated as a higher priority for attention in the administration of SPPs.

Responses

All key agencies agreed with this recommendation except for Health which agreed with qualification, and Treasury which did not comment. Health indicated that the report does not provide any mechanism to enable part (c) of the recommendation to be met. The ANAO considers that the report recognises the difficulties experienced by some agencies in obtaining financial acquittals from some States/Territories and provides options, such as appropriately targeted incentives and alternate acquittal methods, as possible solutions.

**Recommendation
No.7
Para. 3.45**

The ANAO *recommends* that:

- a) all agencies that make SPP payments greater than \$5 million provide short-term forecasts to Treasury (taking into full account the time lag between when agencies authorise payments and when the Reserve Bank of Australia actually makes payments);
- b) agencies adjust their SPP payment schedules, where possible, so that Treasury can be given accurate daily payment forecasts covering payments for the subsequent seven working day period; and
- c) where payment schedules cannot be varied during the life of the current SPP Agreement or the life of applicable Commonwealth legislation, agencies consider and advise on implementation of (b) as part of new SPP agreements or in Commonwealth legislation as appropriate.

Responses

All key agencies agreed with this recommendation except Treasury which did not comment.

**Recommendation
No.8
Para. 3.67**

The ANAO *recommends* that where SPPs are paid in-advance, agencies:

- a) obtain cash expenditure forecasts from the States/Territories regularly throughout each year in order to optimise the cash flow of payments and minimise the amount of unspent SPP funds; and

- b) where cost effective consider moving to smaller and more frequent payments in line with better cash management practice. (If payment schedules can not be varied during the life of the current SPP agreement or Commonwealth legislation this recommendation should be considered as part of negotiation of new agreements or legislation).

Responses

All key agencies agreed with this recommendation except for A-Gs which totally disagreed; DTRS which disagreed with part (b) only; DETYA and FACS which agreed with qualification; and Treasury which did not comment. A-Gs indicated that it counted the interest earned by the States and Territories investing Legal Aid funding as part of the Commonwealth's contribution to legal aid funding in each State and Territory. The ANAO considers that SPP agreements or arrangements that explicitly take account of interest earned by the States and Territories from Commonwealth SPP funding would satisfy this recommendation.

Disagreements and qualifications from other agencies related primarily to the potential for deterioration in Commonwealth-State relations and the removal of a funding source for the States and Territories. The ANAO notes that the views of these agencies are not consistent with the JCPAA which considered that

it is imperative that [agencies] ... ensure funds are released no earlier than necessary to meet identified immediate funding needs of other parties in relation to SPP programs.¹⁵

Recommendation No.9 Para. 3.93

The ANAO *recommends* that agencies consider the implementation of appropriate financial costing systems to capture all significant accrual-based information of outputs or output groups relating to SPPs (which would include the cost of administering SPPs) as part of their strategies for the introduction of the Accrual Budgeting Framework.

Responses

All key agencies agreed with this recommendation except Treasury which did not comment.

¹⁵ *Ibid.*, p. 42.

Audit Findings and Conclusions

1. Background

This chapter sets out descriptions of SPPs and performance information, previous reviews of performance information relevant to SPPs, previous audit coverage and Parliamentary scrutiny, audit objectives, scope, methodology and conduct.

What are SPPs?

1.1 Commonwealth financial assistance to the States is made under section 96 of the Constitution, which provides that

the [Commonwealth] Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit.

1.2 SPPs are a residual classification of payments to the States and Territories that comprise all payments by the Commonwealth other than General Revenue Assistance. SPPs include payments which are subject to conditions on expenditure. These conditions often relate to providing performance data and in some cases achieving performance targets and milestones. Outlays for 90 or so SPPs for the previous and current financial years as well as for the three outyears are set out in Table 1.

Table 1
Total SPPs 1997–98 to 2001–02^(a)

Year	SPPs (\$ billion)	Per cent change on previous year (Nominal dollars)
1997–98	18.7	n/a
1998–99	18.7	-
1999–00	18.9	+1.1
2000–01	19.4	+2.6
2001–02	19.9	+2.6

Source: DOFA Budget Estimates.

(a) Data include SPPs direct to and through the States and Territories such as higher education and research funding. These programs will no longer be classified as SPPs from 1998–99. They are included in this table for comparative purposes and because they were included in the survey of SPPs in 1994–95 and 1997–98. State fiscal contributions to the Commonwealth have not been included.

1.3 In 1998–99, SPPs are estimated to account for 15 per cent of total Commonwealth outlays and some 47 per cent of total Commonwealth funding to the States and Territories. Some \$7.4 billion of SPPs' funds are to be distributed **'through'** the States and Territories (for purposes such as non-government schools, higher education and local government) in 1998–99, while \$11.3 billion goes **'to'** the States and Territories (for purposes

such as government schools, health, transport, industry assistance, housing and community services).¹⁶

1.4 Strictly speaking, SPPs are an appropriation item. However, for the purposes of this report, the ANAO has used the term ‘SPP’ to encompass the term ‘SPP Program’ which includes the broader administrative elements required under Commonwealth-State SPP agreements.

1.5 Larger SPPs sometimes equate to an agency program (for example, the Higher Education SPP in DETYA) or sub-program (for example, Home and Community Care SPP in Health). Other smaller SPPs are subsumed within broader programs or sub-programs within agencies (for example, the Road Safety Black Spot SPP is administered under the Federal Office of Road Safety sub-program in DTRS.) From a performance accountability and reporting perspective, larger SPPs are generally identifiable within Portfolio Budget Statements, Annual Reports and other reports to the Parliament. However, smaller SPPs are often not specifically identifiable in these documents.

1.6 The JCPA has noted that:

*One of the striking features about SPPs is their diversity. SPPs range in value from programs with a Commonwealth contribution of less than half a million dollars per annum to those with Commonwealth contributions of over \$3 billion per annum; from one off grants to ten year programs; and from programs that require 0.5 of a full time equivalent Commonwealth staff member to administer per annum to those requiring over 50 full time equivalent staff per annum. Administrative structures and arrangements also vary greatly, depending on the size and complexity of the program and the degree of involvement by the Commonwealth government, other levels of government and non-government agencies. The disparate nature of SPPs is further compounded as SPPs are known by different names and there is a constant turnover as new SPPs are established and old ones cease.*¹⁷

1.7 This level of change and diversity makes SPP classification over time difficult. Nevertheless, it is important to classify SPPs accurately before any valid comparisons can be made on performance. SPPs can be grouped by factors such as size of programs; whether the payments are ‘to’ or ‘through’ the States and Territories; or whether payments are capital or recurrent or by type of activity funded.¹⁸ Some of the largest payments relate to education, health and transport. Table 2 describes portfolio responsibilities and the number and value of SPPs in 1997–98.

¹⁶ Budget Paper No.3 Federal Financial Relations 1998–99, p. 15.

¹⁷ *Op. cit.*, JCPA (1995), p. 4.

¹⁸ See Budget Paper No. 3 1998–99, pp. 49–103.

Table 2**The number and value of SPPs in 1997–98 examined in this audit^(a)**

Commonwealth agency	Number of SPPs examined	Total Value (\$M) in 1997–98	Per cent of Total Value of SPPs
1. DETYA ^(b)	11	7 833.1	43.2
2. Health ^(c)	16	6 034.1	33.3
3. DTRS	9	2 109.2	11.6
4. FACS	11	1 458.2	8.0
5. DISR	4	249.1	1.4
6. Treasury	3	205.2	1.1
7. AFFA	8	119.1	0.7
8. A-Gs	2	92.3	0.5
9. DoEH	2	12.0	0.1
10. DOFA	1	8.6	<0.1
11. DVA	1	6.0	<0.1
12. HREOC	1	0.9	<0.1
13. DIMA	1	0.1	<0.1
14. DOCITA	1	nil ^(d)	<0.1
Total	71	18 127.9	100.0

(a) This classification of SPPs is based on that used in the 1998–99 Budget Papers for the year 1997–98. A full list of all SPPs examined is included in Appendix 4. SPPs in this table account for some 97 per cent of all SPP expenditure.

(b) Higher education and research funding at universities will no longer be recorded as SPPs from 1998–99. They have been reclassified as multi-jurisdictional.

(c) For the purposes of this survey, programs in Health were divided into discrete sub-program elements where the Department indicated that there were significant differences in requirements for performance information. Consequently, for the purposes of the audit, 71 SPPs have been recorded with separate survey results.

(d) The DOCITA SPP is no longer funded after \$1m was paid in 1996–97.

1.8 A consideration in classifying SPPs is the degree to which performance information is relevant to the program objectives. The SPP survey results show that thirteen SPPs (valued at \$1.8 billion) have negligible performance information requirements specified. These SPPs have more in common with General Purpose Payments as they are designed primarily to compensate States, Territories or local government for revenue foregone or additional expenditure incurred. These are outlined in Table 3.

Table 3**SPPs with negligible performance information requirements specified**

SPP Program	Funding 1997–98 (\$M)	Agency
ACT Assistance for Water and Sewerage	7.9	DTRS
ACT National Capital Influences	19.6	DTRS
Financial Assistance to Local Government	834.8	DTRS
Identified Road Funding for Local Government	370.4	DTRS
<i>Interstate Road Transport Act 1985</i> Payments	20.3	DTRS
Assistance for Housing	5.5	FACS
Compensation for Extension of Fringe Benefits to Pensioners	145.1	FACS
Compensation—Companies Regulation	132.6	Treasury
Debt Redemption Assistance	62.3	Treasury
Debt Retirement Reserve Trust Account	10.4	Treasury
Film and Literature Classification	0.6	A-Gs
Payments in Lieu of Royalties	226.0	DISR
Transfer of Repatriation General Hospitals	6.0	DVA
TOTAL	1 841.5	

1.9 However, for all remaining SPPs, performance information is essential to effective program administration as it provides the basis for judging whether the program is successful in achieving its objectives. In some cases, performance is so important that the Commonwealth does not make substantial payments until after receipt of evidence that the objectives have been achieved.¹⁹ As an example, a proportion of *Pool B of the Medicare Bonus Payments* is tied to performance by the States and Territories under the Medicare Agreement. However, the majority of SPPs are designed as either subsidies or targeted funding ‘to’ or ‘through’ the States and Territories.

Developing performance information

1.10 Performance information is a critical element of the wider management framework that includes setting objectives, strategies for achieving those objectives and mechanisms for collecting and using relevant data in a systematic way—such as for program evaluation purposes. It is not an ‘end’ in itself but rather provides the basis for measuring/assessing whether a program is performing to government, agency and client expectations. It is therefore a crucial management tool, as well as being essential for public sector accountability. Put simply, it is the main means

¹⁹ In these cases some Commonwealth funding is paid in advance but generally the bulk of the funding is tied to specified performance being achieved.

through which assurance is provided to the Parliament and the public that the Government's objectives are being met economically, efficiently and cost effectively over time.

1.11 An efficient and effective performance information system can provide answers to key questions such as the cost of inputs and the production of outputs; whether the processes used are cost effective; and the extent to which outputs have contributed to identified program outcomes. Some of the key principles for inclusion in good performance information have been outlined by the ANAO and the then Department of Finance and include, *inter alia*:

- **the mix of quantitative and qualitative performance information** (While giving a numeric value to performance has the benefits of simplicity and impact, qualitative information is particularly important as, in many situations, it is only with qualitative information that the objective and strategies can be directly linked and cause and effect relationships demonstrated);²⁰
- **achieving an appropriate balance** between inputs and outputs that recognises the interactions and inter-relationships between the factors which influence outcomes;
- **the validity, reliability and accuracy of data** used to measure/assess performance;
- **concentrating on a core set of manageable items** that cost effectively cover the key program dimensions;
- **considering the costs and benefits** of collecting key data items; and
- **continuity** of performance information is important to address trends and whether performance is improving over time.²¹

1.12 Actual assessment of performance, whether for ongoing program monitoring or periodic evaluation, is often based on comparative information. Standards, targets, benchmarks and milestones all provide a basis for such comparisons. These matters are discussed in more detail in the ANAO & Department of Finance *Better Practice Guide for Performance Information*.²² Performance information requirements will also need to be structured for compliance with the Government's Accrual Budgeting Framework for the 1999–2000 financial year. This framework requires agencies to report performance against specified outputs and outcomes rather than in the current program budgeting framework.

²⁰ Management Advisory Board & Management Information Advisory Committee (1993) *Performance Information and the Management Cycle*, Report No.10.

²¹ ANAO & Department of Finance (1996) *Performance Information Principles*, Better Practice Guide, pp. 16–21.

²² *Ibid.*, pp. 11–14.

Previous reviews of performance information relevant to SPPs

1.13 Australia is one of a number of countries seeking to strengthen performance information in public administration. Parallel developments have been occurring over the past decade in a number of OECD countries. For example, the United States of America enacted the *Government Performance and Results Act 1993* to:

*shift the focus of federal management and decision making away from a preoccupation with the activities that are undertaken—such as grants or inspections—to a focus on the results of those activities—such as real gains in employability, safety, responsiveness or environmental quality.*²³

1.14 Within Australia, Commonwealth, State and Territory administrations have also sought to collectively and individually improve performance information. Some of the more notable initiatives are set out in Table 4.

1.15 These reviews, both domestic and international, have found that initiatives to improve performance information have produced mixed results. Where agencies have adopted a disciplined approach to setting results-oriented goals, measuring performance and using performance information to enhance effectiveness, improvements have been achieved. For example, under the USA's *Government Performance and Results Act 1993* improved outcomes were noted in health and social security programs from the better targeting of resources to identify needs. However, for over two-thirds of programs, it is still not possible to provide a satisfactory answer to the fundamental question of whether programs had produced real results.²⁴

1.16 Some of the key challenges emerging from domestic and international reviews were:

- the need to establish clear objectives which focus on client needs and intended results;
- measuring performance—particularly when there is no clear differentiation between national and state objectives or where program efforts are overlapping or fragmented;

²³ Government Accounting Office (USA) (1997) *Managing for Results - Prospects for Effective Implementation of the Government Performance and Results Act*, p. 1.

²⁴ *Op. cit.*, Government Accounting Office (USA).

Table 4
Initiatives to improve performance information

Jurisdiction	Initiative
<p>Commonwealth-State—(1993) The Steering Committee for the Review of Commonwealth/State Service Provision was established under the auspices of the Council of Australian Governments</p>	<p>In 1993, the Steering Committee for the Review of Commonwealth/State Service Provision was established under the auspices of the Council of Australian Governments. The then Prime Minister, Premiers and Chief Ministers asked the Steering Committee to '<i>develop and publish objective data on the performance of services to all Australians and facilitate well informed judgements and sound public policy action</i>'. By providing comparisons across jurisdictions, this information was designed to assist governments and communities to assess how well programs were meeting needs and at what cost.²⁵ Three successive reports have been published as part of an iterative process that has improved the quality and comparability of performance data at the national and State/Territory levels. The 1998 report noted, <i>inter alia</i>, the continuing challenges including information gaps that will need to be addressed in the future in the health and education areas.</p>
<p>Commonwealth—(1995) the Commonwealth Performance Information Review</p>	<p>In 1995 the Commonwealth announced the Performance Information Review to provide a systematic and comprehensive three year assessment of performance information in all areas of activity across Commonwealth agencies. This included program areas involved in Specific Purpose Payments. All departments with the exception of DTRS were involved in this cooperative review.²⁶</p>
<p>State—(1986) mandatory reporting of efficiency and effectiveness indicators in WA</p>	<p>Western Australia has also sought to improve the quality and timeliness of performance information by introducing from 1986–87 mandatory reporting of efficiency and effectiveness indicators by agencies in conjunction with external scrutiny and commentary in annual reports by the State Auditor-General. Initial progress in indicator development by public sector agencies was slow. It was not until 1992–93 that sufficient progress had been made for the State Auditor-General to commence issuing 'assessments' of indicators reported. Formal audit opinions were progressively introduced from the following year.²⁷</p>

²⁵ Steering Committee for the Review of Commonwealth/State Service Provision (1998) *Report on Government Services*, Volumes 1–2, p. iii.

²⁶ DTRS was scheduled to be involved but was unable to participate as the Performance Information Review was rolled into the Commonwealth Accrual Budgeting Project in 1997.

²⁷ Office of the Auditor-General of Western Australia (1994) *Special Report: Public Sector Performance Indicators 1993–94*, Report No.7 – December 1994, p. 7

- obtaining accurate, timely, high quality data from State agencies that may not rate federal data requirements as a high priority;
- ensuring the availability of integrated and reliable management information systems to generate results-oriented performance information over time;
- instilling a results-oriented organisational culture within agencies;
- linking performance information to operational management and budget processes;
- maintaining an appropriate degree of external scrutiny for agency performance information;
- ensuring a high level of personal interest by Chief Executive Officers; and
- highlighting the need to improve performance information on efficiency, effectiveness, quality and access and equity criteria.

Previous audit coverage and Parliamentary scrutiny

Audit Report No.18 1990–91 Specific Purpose Payments to and through the States and Northern Territory

1.17 This report found excessive delays in the provision of statements of expenditure and independent certification to attest that funds were expended for the intended purposes, a lack of clear objectives in 12 per cent of SPPs and an absence of performance indicators for 56 per cent of SPPs.

Audit Report No.6 1993–94 An Audit Commentary on Commonwealth-State Agreements

1.18 An overview of the important features to be included in Commonwealth-State Agreements was included in this report. The report noted the potential for improvements in accountability, value for money, protection of the Commonwealth's interests, and the benefits of reducing unnecessary duplication, greater use of incentives, and better integration of audit activity at the different levels of government.

Audit Report No.21 1994–95 Specific Purpose Payments to and through the States and Territories

1.19 This report found that for many programs, there was still substantial room for improvement in accountability mechanisms and financial arrangements. Some did not require statements or certificates of expenditure; for those programs that required statements or certificates of expenditure, almost a third did not specify a time limit for their provision; and for those where a time limit was specified, approximately 50 per cent

were late. Particular limitations were noted in relation to the collection and reporting of performance information and in relation to cash management practices. The absence of any formal agreements was also noted in a number of cases. The overall results of the survey were that while pockets of good performance existed across programs, in many cases the design of agreements was not comprehensive enough to make them useful as management tools.

Audit Report No.10 1994–95 Cash Management in Commonwealth Government Departments

1.20 It was found that a more proactive approach to cash management could realise millions of dollars in interest savings on the Commonwealth's cost of borrowing. More accurate forecasting of cash expenditures and revenues was also identified as being crucial to good cash management. A number of options were identified for improved forecasting practices.

The Joint Committee of Public Accounts (JCPA) (now the Joint Committee of Public Accounts and Audit (JCPAA))

1.21 In November 1995 the JCPA produced *Report 342—The Administration of Specific Purpose Payments—A Focus on Outcomes*. The report was based on ANAO survey results and findings from Audit Report No.21 1994–95.

1.22 The JCPA found that over the previous decade, a number of Commonwealth and State reviews had highlighted considerable potential for improvement in SPP structures, administration and service delivery. The then Chairman of the JCPA said that:

The essential theme of the Committee's report is that there should be a greater focus on the assessment of performance towards meeting SPP objectives. The Committee believes that the Commonwealth needs to have a clearer focus on strategic planning and articulating SPP objectives in terms of measurable outcomes in the community. As the Commonwealth strengthens its focus on strategic planning and performance assessment, it should progressively disengage from SPP micro-management, leaving this task to state governments and the other non-Commonwealth parties to SPP agreements. Primary accountability to the Commonwealth should increasingly be for outcomes achieved rather than for inputs and processes. In turn, this will require the state governments and non-Commonwealth parties to justify expenditure of Commonwealth funds in terms of their performance towards achieving agreed objectives.²⁸

²⁸ *Op. cit.*, JCPA (1995), pp. xi–xii.

1.23 In considering the above principles, the JCPA suggested a number of features that, when taken together, characterise an ideal SPP agreement. These features were expanded by JCPAA Report 362 (June 1998) *General and Specific Purpose Payments to the States* and are discussed in Chapter 2 of this report under the heading Designing programs for improved performance. JCPAA Report 362 indicated that:

*the ideal SPP features set out in report 342 remain relevant to contemporary SPP program design and management and that Commonwealth departments should continue to draw upon them in preparing specific conditions to be attached to individual SPPs under their administration.*²⁹

Audit Objectives

1.24 The objective of the audit was to examine the efficiency, economy and effectiveness of performance information for Commonwealth SPPs operating ‘across-the-board’. The audit aimed to:

- identify and benchmark current practices in the management of performance information within agreements/contracts;
- document the lessons learned including better practice from different agencies and programs;
- provide a longitudinal analysis of progress on key questions from the last survey in 1994–95 covered in JCPA Report 342; and
- provide practical guidance for the development and implementation of appropriate performance information systems and accountability for SPPs.

Audit Scope

1.25 The scope of the audit encompassed the majority of SPPs listed in Budget Paper No 3, Federal Financial Relations (1997–98) and those SPPs listed in the *Catalogue of SPPs to the States and Territories*, February 1997. SPPs covered by the audit are listed in [Appendix 4](#) and are summarised by agency in Table 2 under *Background*.

1.26 The 71 SPPs examined from these sources represent 80 per cent of the number of all SPPs surveyed and 97 per cent of the value of all SPPs surveyed in 1997–98. Sixteen SPPs were not included in the audit because:

- the program has been the subject of recent performance audit activity (for example, National Firearms Program and the Natural Heritage Trust);

²⁹ *Op. cit.*, JCPAA (1998), p. 56.

- the program will be discontinued from 1998–99 (for example, National Firearms Program and National Estate Grants); and
- expenditure has yet to occur (for example, Native Title).

1.27 In addition, three SPPs valued at \$22.4 million were omitted from the former DHFS portfolio³⁰ because of substantial work load pressures involved in completing multiple SPP survey forms within just a few branches of the Department.

Audit Methodology

1.28 The audit methodology involved a survey of current Commonwealth SPPs across fourteen Commonwealth agencies. The survey questions were based on the key questions or recommendations and findings from:

- Audit Report No.21 1994–95 *Specific Purpose Payments to and through the States and Territories*;
- JCPA (1995) *Report 342—The Administration of Specific Purpose Payments—A Focus on Outcomes* as well as other audit reports discussed in the *Previous audit coverage and Parliamentary scrutiny* section;
- ANAO & Department of Finance (1996) *Better Practice Guide on Performance Information Principles*; and
- DOFA Discussion Paper (1997) *A Basic Framework for the Specification of Outcomes and Outputs, Implementing the Commonwealth’s Accrual-Based, Outcomes and Outputs Framework*.

1.29 The questions covered:

- performance assessment;
- the source and supply of performance data;
- data management;
- incentives and sanctions;
- financial acquittals;
- cash management; and
- administration costs.

1.30 A number of these questions also provided the basis for a longitudinal analysis of critical areas from the ANAO’s 1994–95 Survey of SPPs. In examining these areas, the ANAO accepted that some SPPs are administered within a wider performance management context. This

³⁰ In Health these programs involve the administration of seven different program elements.

recognises that for some smaller SPPs, in particular, it may be appropriate and cost effective to consider performance information in the wider program management context. However, in whatever way SPPs are managed, the ANAO considers that there is a responsibility on agencies to measure or assess performance against the objectives or intended outcomes agreed by the Commonwealth with the States and Territories. This is important for public accountability purposes, as well as for efficient and effective administration.

Quality Control

1.31 The ANAO contracted the services of ORIMA Research to provide specialist advice on survey design and analysis. Questions were structured and coded in a way that enabled cross tabulations so that relationships between variables could be compared and 'lines of best fit' established. The survey questionnaire sought mostly factual information but a number of judgemental questions were also included to gain an understanding of how program managers themselves viewed the performance of their programs. Quality control was conducted through a phased approach using the services of the consultancy firm Re-Engineering Australia to provide expert advice and assistance. The survey form itself contained a number of 'built-in' cross checks for consistency purposes.

1.32 Following receipt of survey responses, a stratified sample of SPPs was selected for validation which involved checking back to source documents within agencies. The sample chosen represented one third of all SPPs included in the survey and over 90 per cent of the value of SPPs surveyed. Validation involved program managers providing documentation or other suitable evidence to substantiate the accuracy and completeness of the information supplied in the survey.

1.33 The validation process demonstrated that the survey was a generally reliable indicator of administrative performance in substantive areas, such as financial information, and where the program contained tangible attributes such as performance indicators, targets and milestones. In areas where the ANAO was seeking an assessment of the extent to which attributes were measuring performance, (for example, the extent to which performance indicators were measuring/assessing quality) the ANAO relied on the judgement of program managers, but where possible, sought confirmation of these assessments with supporting evidence. In a few cases, the ANAO had initial reservations regarding the accuracy of responses to particular questions. Discussions with individual agencies satisfactorily resolved any outstanding matters and responses were adjusted with the agreement of the agencies concerned.

1.34 A further step in quality control and testing of the accuracy of agency responses was provided through a survey of client groups. A sample of key stakeholders linked to each SPP were invited to provide comments on the performance of each program. The ANAO received 109 submissions covering 62 SPPs (87 per cent of the total number of SPPs examined by the ANAO). Submissions were received from State Governments, peak bodies, educational institutions and community organisations across Australia. The ANAO considers that the opinions of key stakeholders can provide a significant ‘reality check’ in the development of audit findings and can improve the overall quality and relevance of the final audit product for the Parliament.

Audit Conduct

1.35 The audit was conducted in accordance with the ANAO Auditing Standards. The audit commenced in September 1997 and the bulk of the fieldwork was conducted between October 1997 and May 1998. The total cost of the audit was \$492 000.

2. Performance Management and Accountability

This chapter explores the characteristics of SPPs, design principles for optimal performance, managing for results, evaluation and reporting to the Parliament and the use of incentives and sanctions to improve performance. While positive trends have been noted in program design the most disappointing aspect from the survey is the limited inclusion of performance indicators, targets and milestones in SPP agreements. The evidence suggests that agencies can learn from the reforms in Western Australia in particular. As part of this audit, a review of three of the major Commonwealth agencies responsible for the majority of SPPs by value indicated mixed performance so far but there were signs of some improvement since the 1994–95 Survey.

Introduction

2.1 Section 44 of the *Financial Management and Accountability Act 1997* requires that agency heads manage the affairs of the agency in a way that promotes efficient, effective and ethical use of Commonwealth resources. The ANAO considers that a proper performance assessment framework is a key means by which this requirement is discharged.

2.2 For the purposes of this chapter, the ANAO recognises that SPP performance information can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements.

2.3 The key elements of performance accountability in relation to SPPs examined by the ANAO are:

- program design;
- performance management;
- performance evaluation and reporting; and
- incentives and sanctions.

Designing programs for improved performance

2.4 As discussed in the previous chapter, the JCPAA in Report 362, endorsed a number of features that, taken together, characterise an ‘ideal’ design for an SPP Agreement. These are outlined in Table 5.

2.5 The ANAO considers that these are important principles for consideration in balancing the achievement of efficient and cost effective

Table 5
JCPAA features of an ‘ideal SPP program’

1. SPP arrangements are administered under agreements between the parties or legislation where appropriate;
2. The roles of the parties to SPP arrangements and their responsibilities for particular program management activities are clearly defined and the communication and consultation arrangements to operate between the parties are adequately specified;
3. There is appropriate recognition of the contribution of the Commonwealth and other parties to the provision of SPP-funded services;
4. SPP program objectives are specified in terms of clear, achievable and measurable outcomes;
5. Requirements regarding the financial contributions of the parties to SPP arrangements (input controls) are phased out, except where they are essential to the design and management of individual SPPs;
6. Input controls that continue to be used for individual SPPs are clearly identified and defined;
7. SPP payments are released no earlier than necessary to meet the identified immediate funding needs of the other parties to SPP arrangements;
8. Measurable performance indicators are linked to and specified for each SPP program objective and basic data collection requirements are identified for each performance indicator;
9. SPP financial accountability requirements are as streamlined as possible;
10. There are graduated sanctions for non-compliance with SPP program conditions and appropriate processes are in place for apparent instances of non-compliance to be examined with other relevant parties to SPP arrangements before sanctions are applied;
11. SPPs and associated administrative activities are subject to periodic evaluation and review;
12. The Parliament and the public have ready access to reliable and up to date information about SPPs and their performance results; and
13. Smaller SPPs are broadbanded in portfolio areas as far as practicable.

Source: Joint Committee of Public Accounts and Audit (1998) *General and Specific Purpose Payments to the States*, pp. 57–58.

outcomes with the need for public accountability and the protection of taxpayers’ funds.

2.6 Table 6 summarises the trend information on some of these principles. Principles three and five in Table 5 above were not tested in the 1997–98 survey as they had not been included by the JCPAA in the design of an ideal SPP at the time of the survey. Principle 12 is considered under the *Evaluation and Reporting Performance* Section of this report. Principle 13 was explored in the former DHFS but not included in this report as the Department had not yet completed the broadbanding of smaller SPPs during the field work stage.

Table 6**Survey responses on design features in SPPs^(a)**

SPPs containing the following features (Multiple responses)	Per cent of total 1994–95	Per cent of total 1997–98	Per cent of SPPs where performance information is considered essential 1997–98
Formal agreement/contract or legislation	39	62	64
Goals or intended outcomes	92	87	95
Operational objectives that are concise and outcomes-oriented	n/a	73	83
Performance indicators ^(b)	70	58	67
Performance targets/milestones	62	49	60
Outputs	n/a	68	74
Roles and responsibilities of parties to the agreement	n/a	93	97
Incentives and sanctions tied to SPP goals ^(c)	71	41	47
Consultative arrangements to be followed before sanctions considered/implemented ^(d)	22	53	59
Commonwealth SPPs requiring performance data	78	75	91
Acquittals based on audited annual financial statements ^(e)	42	14	17
Total number of valid responses	92	71	58

(a) Percentages do not total 100 per cent as agencies provided multiple responses.

(b) In the 1990–91 Survey, 44 per cent of SPPs had performance indicators and 88 per cent of SPPs had clear objectives.

(c) In the 1994–95 Survey these sanctions were related to non-compliance with the agreement provisions. One third of SPPs in 1994–95 also had sanctions if program targets were not met.

(d) These were classified as formal dispute resolution mechanisms in the 1994–95 Survey.

(e) The JCPAA has indicated that financial accountability mechanisms should be streamlined and include a single form of financial statement that, when audited, would satisfy the annual financial reporting requirements of both the Commonwealth and parties receiving SPP funds. From the 1997–98 survey, some agencies have multiple forms of financial acquittal. In 1997–98, 93 per cent of SPPs used either signed statements of expenditure or certificates of expenditure. 12.9 per cent of SPPs were not acquitted at all. As this latter group were all SPPs involving compensation to the States and Territories or general purpose assistance to local government, this does not represent a material risk to the Commonwealth. While moving to streamlined financial reporting requirements is desirable, where the applicable legislation authorises it, signed statements of expenditure and certificates of expenditure are still acceptable forms of acquitting Commonwealth funding.

2.7 However, in relation to the majority of the criteria, the results highlight positive performance in relation to:

- the use of formal agreements—a 38 percentage point increase since 1994–95 for all SPPs surveyed;
- the inclusion of goals and outcomes, particularly for those programs requiring performance information (that is, 95 per cent for SPPs where performance information is essential as suggested by the JCPA);
- defining roles and responsibilities—a 96.4 per cent result for SPPs where performance information is essential; and
- the application of consultative arrangements to be followed before sanctions are considered or implemented—a 32 percentage point increase.

2.8 The most disappointing aspect from the survey is the limited inclusion of performance indicators for SPPs, targets and milestones in SPP Agreements and/or any associated documented administrative arrangements. The use of performance indicators in particular, has declined by some twelve percentage points from the 1994–95 Survey.³¹ In Health, only eight of sixteen SPPs surveyed contained performance indicators. This contrasts with other major agencies administering comparable SPPs such as DETYA (ten out of eleven SPPs have performance indicators); FACS (six out of nine SPPs have performance indicators); and DTRS (three out of four SPPs have performance indicators).³² However, the ANAO notes that the former DHFS incorporated performance measures and reporting of its smaller SPPs within higher level objectives, performance indicators and targets in its Portfolio Budget Statements and Annual Reports. While this is not inconsistent with current annual reporting guidelines, the JCPAA has recommended that performance information be provided for SPPs.³³ The Department of the Prime Minister and Cabinet has indicated that this is being considered within the context of future revisions to requirements for departmental annual reports.³⁴ The introduction of improved definitions of outputs and outcomes as part of the Accrual Budgeting Framework may also assist in better description and reporting of progress against objectives

³¹ The 1994–95 Survey does not identify SPPs with little or no performance information requirements. However, assuming the proportion of SPPs in this category was similar in 1994–95, the ANAO estimates that the decline would be some 13 per cent.

³² Another four DTRS programs were SPPs where performance information requirements are negligible. Health has no SPPs within this category although Base Medicare is a special case as performance information is classified by the Department as being not applicable. This is because the performance information for Base Medicare is managed through the Other Medicare Bonus Payments SPP.

³³ See Principle 12 of the JCPAA features of an 'ideal SPP program' in Table 5 of this report.

³⁴ *Op. cit.*, Joint Committee of Public Accounts and Audit (1998), p. 50.

for major SPPs involving legislation or formal Commonwealth/State agreements.

2.9 The ANAO considers that, even if not separately reported in the annual report, performance indicators, targets and/or milestones are essential for monitoring program performance and for public accountability purposes. However, the ANAO recognises that the development of credible, useful performance measures can be difficult. It is often an iterative process as relevant indicators may only emerge over time and after a process of refinement during which less useful indicators are discarded.³⁵ In some cases there may be tensions between a focus on longer term outcomes (which may be more difficult to measure) and shorter term (but more measurable) outputs but which may not capture high level objectives. There may be difficulties in accurately attributing responsibility for the achievement of high level outcomes. There may also be a reluctance by the States and Territories to agree to a performance information regime that may have sensitive policy and/or budgetary implications. This requires sound risk management approaches by agencies.

2.10 The ANAO notes that most program areas covered by SPPs (such as health, transport and education) have traditionally been the responsibility of the States and Territories with respect to service delivery. Even where the Commonwealth has clear responsibilities, such as in relation to the National Highway System, ownership of the asset rests with the States and Territories. Consequently, it is not surprising that different States and Territories sometimes have different definitions or different performance targets, for example, in relation to acute health care.³⁶

2.11 However, while recognising these constraints, a better result could have been expected given:

- the number of previous audits in this area;
- the dissemination of a better practice guide in 1996;
- the resources already allocated to processes such as the Performance Information Review;³⁷ and
- the operation of the Council of Australian Government's Steering Committee for the Review of Commonwealth/State Service Provision.³⁸

³⁵ Hall, C. & S Rimmer (1994) *Performance Monitoring and Public Sector Contracting*; Australian Journal of Public Administration, Vol 53 No.4.

³⁶ The DHFS *Annual Report* 1996–97 notes the various definitions used by the States and Territories for performance targets, pp. 99–100.

³⁷ The Performance Information Review was carried out from 1995–1997 in all agencies except for DTRS. It was rolled into the Accrual Budgeting Project in 1997.

³⁸ The Steering Committee reports to the Prime Minister and Premiers/Chief Ministers on performance information in key areas of joint Commonwealth/State responsibility. However not all SPPs are covered by this process. For example, while education, health and community services are included, transport, environment and industry assistance programs are not.

Case Study 1

Payment to Tasmania for the Antarctic and Southern Ocean Centre (\$1 million in 1996–97)—DOCITA

The importance of having a formal agreement that is consistent with the management of identified risks is illustrated by the agreement made between the Commonwealth Government and Tasmanian Government for exhibition design and fitout of the Antarctic and Southern Ocean Centre in Hobart.

On 21 April 1997, the Tasmanian Office of Antarctic Affairs signed a Memorandum of Understanding (MOU) with the then Department of Communications and the Arts. The MOU provided the formal agreement relating to funding of \$2.5M over three years. The Department of Communications, Information Technology and the Arts has stated that discussions on the purpose and use of the SPP took place over several months prior to the MOU being signed. The first payment of \$1 million was made on 12 May 1997. In September 1997, the Tasmanian Government sold the Centre to a private organisation. The Office of Antarctic Affairs has indicated that had adequate consultation occurred prior to payments being made, the Commonwealth would have been aware that it was always the intention of the State Government to sell the Centre. The Office of Antarctic Affairs was particularly concerned that there was '*insufficient opportunity for discussion of either program objectives or intended outcomes in the early stages of the program*'.³⁹ In September 1997, the Commonwealth obtained legal advice as to their options and obligations under the MOU. The legal advice indicated that while there was no legal obligation to make the second and third payments, the Commonwealth could not demand repayment of the first instalment as the terms and conditions of the MOU were not breached and conditions could not be imposed after the grant had been made.

ANAO Comment

This case illustrates an unforeseen risk for the Commonwealth that could have been better guarded against. This situation could have been prevented had adequate consultation occurred prior to payments being made and had a condition been attached to the payments that required Tasmania to repay the Commonwealth monies in the event of the Centre being sold. Alternatively, the MOU could have had a clause requiring the State to use the proceeds (or part thereof) from the sale of the Centre for an approved purpose. Either of these provisions could reasonably have been expected to be included in the treatment of risks for a capital assistance program of this nature.

This case has wider implications for other areas of Commonwealth expenditure of a capital nature. Any Commonwealth funding directed to capital items owned by the States and Territories could be subject to privatisation and sale of the assets involved. The ANAO considers that, if the Commonwealth is seeking to retain an interest in the assets developed or purchased with Commonwealth assistance, appropriate conditions should be attached to such payments that require repayment of all or part of its monies in the event of the capital items being sold by the States and Territories within a specified time period of the Commonwealth monies being paid. Alternatively, the Commonwealth could seek to tie certain expenditure from the proceeds of any asset sale to a particular purpose. One example where this approach has been adopted is the Commonwealth-State Housing Agreement (CSHA), where proceeds from the sale of Commonwealth-funded assets are required to be spent in accordance with the specified purposes outlined in the Agreement.

³⁹ Submission from the Office of Antarctic Affairs, 13 March 1998.

2.12 As noted by DOFA, intermediate levels of output classes or outcomes may assist effective prioritisation and measurement of performance in the shorter term whereas higher level outcomes can generally be measured over a long period of time. DOFA indicated that

*if the program logic is obvious, output classes can be defined in a sequential manner by going from high level outcomes to practical implementation actions.*⁴⁰

2.13 External scrutiny and public reporting can also provide a strong incentive for improving the measurement of performance. For example, the external scrutiny provided by the Western Australian Auditor-General (that is, through his comments on agency annual reports) gives a strong incentive for improvement in the quality of performance indicators over time. In 1995–96, the Western Australian Auditor-General indicated that 76 per cent of public sector expenditure in that State was covered by unqualified performance indicator opinions and only six per cent of public sector expenditure was covered by unsatisfactory performance indicators. This unsatisfactory category was largely non-teaching hospitals and small agency departments.⁴¹ In 1997–98, unqualified performance audit opinions from the Western Australian Auditor-General covered all but three per cent of public sector expenditure in that State.⁴²

2.14 The ANAO notes that the Western Australian approach of making indicators subject to independent scrutiny parallels similar approaches in the United Kingdom and one province in Canada. For example, the UK Audit Commission considers that publication of such information is critical to enable people to measure the performance of their local authorities against other comparable authorities over time. The Commission's strategy is to develop systems for comparing the performance of audited bodies and to improve access of all interested parties to comparative information. In Alberta, Canada there is a close integration between the performance management system and the accountability framework. Since March 1997, Alberta audit staff have been meeting with provincial ministries to determine the extent to which credibility can be added to departmental performance measures in annual reports. The target is for an audit of performance measures in the March 1999 Annual Reports.⁴³

2.15 Given the importance of the quality of performance information to Government reforms such as the Charter of Budget Honesty and the Accrual Budgeting Framework, the ANAO intends that, at this stage, performance

⁴⁰ *Op. cit.*, Department of Finance and Administration (1998), p. 5.

⁴¹ Office of the Auditor-General of Western Australia (1997) *Annual Report 1996–97*, p. 24.

⁴² Office of the Auditor-General of Western Australia (1998b) *Report on Audit Results 1997–98: Financial Statements and Performance Indicators*, Report No.13 December 1998, p. 9.

⁴³ Auditor-General of Alberta (1996) *Annual Report for 1995–96*, Canada, p. 7.

audits will be used to test progress in improving the quality of performance information to assist the Accrual Budgeting implementation. Should there be no demonstrable improvement over a reasonable period, consideration may have to be given by the relevant authorities to a requirement for the Commonwealth Annual Reporting Guidelines to be revised to require independent scrutiny and comment on the appropriateness and accuracy of key performance indicators used in agency annual reports.

SPP design conclusions

2.16 From the 1997–98 survey results, there are positive indications of good practice that is consistent with the set of ideal administrative features developed by the JCPAA. In some cases, the JCPAA principles have become standard practice. For example, where performance information is important, 97 per cent of SPPs surveyed indicated that the agencies concerned had defined the roles and responsibilities of the parties to the agreement, while 83 per cent showed they had concise, outcomes-oriented objectives. The survey also demonstrated that there have been positive trends towards good practice since the 1994–95 Survey. For example, 62 per cent of all SPPs surveyed now have formal agreements compared with 39 per cent in 1994–95. Further, 53 per cent of all SPPs surveyed in 1997–98 included consultative arrangements to be implemented before the application of sanctions, compared with 22 per cent in 1994–95.

2.17 The most disappointing aspect from the 1997–98 survey was the limited inclusion of performance indicators, targets and milestones in SPP Agreements and/or any associated documented administrative arrangements. In 1995, the JCPA recommended that performance information be provided for SPPs.⁴⁴ However, the use of performance indicators has declined by some twelve percentage points from the 1994–95 Survey. In Health, only eight of sixteen SPPs surveyed used performance indicators. This contrasts with other major agencies administering SPPs, such as DETYA (ten out of eleven SPPs have specific performance indicators); FACS (six out of nine SPPs have specific performance indicators); and DTRS (three out of four SPPs have specific performance indicators).⁴⁵ There is also evidence to suggest that, generally, agencies at the Commonwealth level can learn from the performance measurement reforms and practices in other jurisdictions—notably in Western Australia in recent years.

⁴⁴ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 99.

⁴⁵ Another four DTRS programs were SPPs where performance information requirements are negligible. Health has no SPPs within this category although Base Medicare is a special case as performance information is classified by the Department as being not applicable. This is because the performance information for Base Medicare is managed through the Other Medicare Bonus Payments SPP.

Recommendation 1

2.18 The ANAO *recommends* that:

- a) agencies take into account the latest JCPAA SPP model features in the design of all new SPPs or where existing SPPs are being revised or re-negotiated; and
- b) core performance indicators, targets and milestones be included for new SPPs or when re-negotiating current SPPs other than those with negligible performance information requirements.

Agencies' responses

2.19 All key agencies agreed with this recommendation except DOCITA and Health which agreed with qualification and Treasury which did not comment. DOCITA noted that in some cases, such as one-time SPPs in the nature of a donation, performance indicators and targets may not be appropriate. Health disagreed with part (b) as the agency considers that performance indicators are not applicable to all SPPs.

Managing for results—applying performance information to SPPs

2.20 While having a good program design is important, program outcomes can be compromised if not well implemented. In Report 342 the JCPA sought ‘*a greater focus on the assessment of performance towards meeting SPP objectives*’. The JCPA considered that ‘*the Commonwealth needed to have a clearer focus on strategic planning and articulating SPP objectives in terms of measurable outcomes in the community*’. In 1996, the ANAO and the then Department of Finance outlined better practice principles for program managers implementing performance information. The lessons learned from developing this better practice guide are outlined in more detail in [Appendix 1](#). Some of the key considerations in implementing performance information are:

- how effective is the program in achieving the desired outcomes?
- how efficient is it in using inputs to produce the required outputs?
- to what extent are program outputs contributing to program outcomes?
- what is the quality of the program’s outputs and outcomes?
- are clients receiving a satisfactory level of service? and
- is the program meeting access and equity requirements?

2.21 For those SPPs where performance information is required (that is, 58 out of the 71 surveyed in 1997–98), program managers indicated that the Commonwealth obtained performance data from a range of sources.

However, the survey indicated a disparity between the sources of the performance data and its usefulness. This is outlined in Table 7.

Table 7
Sources and rating of Commonwealth SPP performance data

Sources of Data (Multiple responses)	Per cent and number of SPPs obtaining performance data from this source ^(a)	Per cent and number of SPPs obtaining performance rating data from this source as very useful or useful ^(b)
States and Territories	91.4% (53 of 58 SPPs)	76.2% (32 of 42 SPPs) ^(c)
Other parties to agreements	19.0% (11 of 58 SPPs)	100.0% (10 of 10 SPPs) ^(d)
Other Commonwealth agencies	12.3% (7 of 57 SPPs) ^(e)	100.0% (7 of 7 SPPs)
Direct collection by agency	31.6% (18 of 57 SPPs) ^(e)	88.2% (15 of 17 SPPs) ^(f)
Peak bodies	10.5% (6 of 57 SPPs) ^(e)	100.0% (6 of 6 SPPs)

(a) Per cent of SPPs that have performance data requirements (that is, the thirteen SPPs with little or no performance data requirements have been excluded). Percentages do not total 100 per cent as agencies provided multiple responses.

(b) Per cent of SPPs that have obtained performance data from each source.

(c) Excludes eleven SPPs: five SPPs “too early to tell” and six SPPs with missing responses.

(d) Excludes one SPP “too early to tell”.

(e) Excludes one missing response.

(f) Excludes one missing response.

2.22 Table 7 suggests that almost one-quarter of the 58 SPPs examined may be having some difficulties with the quality of the data from the States and Territories—the primary source of performance data for the administration of Commonwealth SPPs. This result contrasts with the fully positive responses of the usefulness of performance data received from other parties to the SPP agreements. The difficulties with State/Territory data occurred even though 82 per cent of Commonwealth SPPs included guidelines to the States and Territories to assist in the completion of performance data returns. This is an improvement from 1994–95, when only a third of SPPs issued guidelines to the States and Territories.

2.23 While recognising the significant role being played by the Australian Institute for Health and Welfare (a separate division within Health), in improving performance information, the survey indicated that Health is particularly reliant on cooperation from the States and Territories for performance data with only one program requiring other parties to provide performance information. This contrasts with DETYA’s experience where performance data is obtained from a variety of sources. For example, six SPPs from DETYA required both the States and Territories and other parties to agreements to provide performance data, while two programs (Higher Education and Research at Universities) did not require any data

from the States and Territories. The former DHFS has indicated that

many of the DHFS administered SPPs are partnerships, and that circumstances beyond mere administrative arrangements may preclude the possibility of the Commonwealth getting all States/Territories to accept [desirable performance information and evaluation requirements in its SPPs].

2.24 The ANAO notes there are good examples of collaborative methods of obtaining desired performance information that Health may wish to explore. For example, for the Schools SPPs, DETYA has used collaborative arrangements achieved through the Commonwealth/State Ministerial Council to assess student numeracy and literacy adopting common measures across all jurisdictions. DTRS has also indicated that it intends to use an independent research body to collect common performance information for the National Highway and Roads of National Importance SPP that would be useful across all jurisdictions. However, the ANAO notes that this type of approach can be expensive and any contract with a third party needs to be developed and managed with great care—particularly where there are numerous non-government client groups. Consequently, it may not be suitable in all circumstances.

2.25 In terms of the key dimensions of performance, Table 8 outlines some of the key result areas from the 1997–98 survey of SPPs.

Table 8

Assessment of performance indicator attributes^(a)

Performance indicator attributes	Per cent of SPPs able to <u>fully</u> measure this attribute in 1997–98	Per cent of SPPs able to <u>partially</u> measure this attribute in 1997–98	Per cent of SPPs <u>not</u> able to measure this attribute in 1997–98
Effectiveness ^(b)	32.8	27.6	39.7
Efficiency	24.1	27.6	48.3
Quality	15.5	37.9	46.6
Access and equity	17.2	34.5	48.3

(a) Thirteen SPPs (18.3 per cent) surveyed involved programs where performance information is negligible. These programs have more in common with General Purpose Payments as they only involve the redistribution of funds to the States, Territories or local government. Consequently, these SPPs been excluded from this table for the purposes of assessing performance indicators. The total SPPs examined in Table 8 is 58 out of the 71 surveyed.

(b) Percentages do not add to 100 per cent due to rounding errors.

2.26 Table 8 indicates that Commonwealth agencies generally still have some way to go before performance information can tell the full story about the use of inputs and the production of outputs; whether the processes

used are cost effective; to what extent program outputs are helping to achieve program outcomes; and whether the services provided are of the appropriate quality. The two primary mechanisms for measuring quality are quality assurance (and in some cases this can be linked to accreditation) and client/customer satisfaction surveys. Both these mechanisms are consistent with a focus on results and the expectations of service users in the community. However, their introduction can, in some circumstances, impose significant cost pressures on these services within a tight fiscal environment at both the Commonwealth and State/Territory levels. Nevertheless, the ANAO would expect agencies to have at least considered the extent to which quality measures could be progressively incorporated into SPPs in the future.

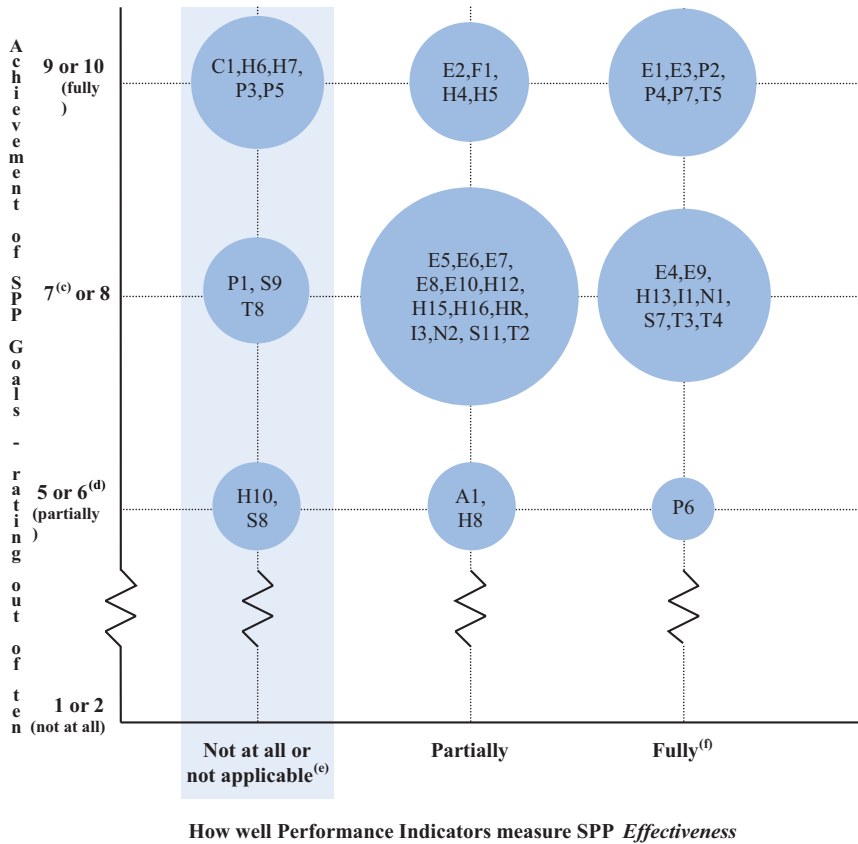
2.27 Overall, the high number of responses within the last column of Table 8 provide a snapshot of the percentage of SPPs having difficulty in measuring performance. It suggests that there are still substantial constraints to effective measurement or that insufficient priority has been given to improvement in performance information. Both these points are reinforced by the result that no SPP program could demonstrate that it is fully able to measure or assess performance across all four measures of performance.

2.28 The ANAO used correlation analysis to determine the strength of the association between agencies' views on how well SPP performance indicators measure SPP effectiveness and how well SPPs are achieving their goals. The ANAO found no statistically significant correlation between these variables.⁴⁶ A cross-tabulation of these variables at Figure 1 shows that some agencies rated SPP goal achievement highly although they did not have performance indicators capable of measuring SPP effectiveness. The reasons for this result are not obvious. However, it is likely that agencies have based their rating on information other than that derived from their performance indicators (for example, inputs such as funds allocated, or informal measures of Ministerial and stakeholder satisfaction when evaluating outcomes). The ANAO considers that to be effective, performance indicators should be as explicit, transparent and objective as possible. This is also crucial to telling the full story as to agency performance and demonstrating accountability to the Parliament.

⁴⁶ A five per cent level of statistical significance was used in the analysis. Therefore it was not possible to establish with a probability of 95 per cent that there was a relationship between SPP effectiveness performance indicators and the achievement of SPP goals.

Figure 1

Cross-tabulation of agencies' views on 'Effectiveness' performance indicators and the Achievement of SPP Goals^{(a)(b)}



Legend

● - No. of SPPs (where size increases as the number of SPPs increases) H1 - SPP code (see Appendix 4)

A - Gs; C - DOCITA; E - DETYA; F - DOFA; H - Health; I - DISR;
 A- M - DIMA; N - DoEH; P - AFFA; S - FACS; T - DTRS

- (a) - SPPs that have little or no performance information requirements (see paragraph 1.8) have been excluded.
- (b) - S10 did not specify how well its achieving its goals nor how well its performance indicators measure SPP effectiveness. E11 considered that it had no SPP outcomes and did not specify how well its performance indicators measure SPP effectiveness. P8 considered that it was too early to rate the achievement of SPP goals and did not specify how well its performance indicators measure SPP effectiveness.
- (c) - H14 did not specify how well its performance indicators measure SPP effectiveness.
- (d) - I2 considered that its performance indicators had not yet been developed.
- (e) - H2 and H11 did not specify how well its achieving its goals. M1, H1 and H9 considered that they had no SPP outcomes.
- (f) - S2, S3, S4 and S5 considered that it was too early to rate the achievement of SPP goals.

This figure shows that some agencies consider that their SPPs are achieving their goals even though their SPPs do not have performance indicators that measure SPP effectiveness (see blue-shaded area). These agencies, therefore, must be basing their rating of the achievement of SPP Goals on information other than that derived from their performance indicators.

2.29 A significant factor in not being able to measure performance, is the quality of the performance data supplied by the States, Territories and other parties to agreements. Table 9 examines the responses from Commonwealth agencies.

Table 9

Survey responses on quality of performance data supplied by the States and Territories^(a)

Attributes of the data supplied	Percentage of SPPs rating information from the States and Territories as being:				
	Very good or good	Average	Poor	N/A performance data not yet received	Per cent of SPPs that did not respond to this question
Sufficiency of detail	49.1	22.6	3.8	9.4	15.1
Completeness	52.8	20.8	1.9	9.4	15.1
Reliability	50.9	22.6	1.9	9.4	15.2
Validity/accuracy	52.8	18.9	1.9	9.4	17.0
Timeliness	30.1	32.1	13.2	9.4	15.2

(a) Thirteen SPPs not requiring performance information were excluded from this table. Five SPPs were excluded from this table as they did not indicate that the States/Territories were a source of performance data. These included DETYA programs 'Higher Education' and 'Research at Universities,' DTRS programs 'Financial Assistance to Local Government' and 'Local Roads' and the Health program National Drug Strategy. Consequently the total population for the above table is 53. Data for five SPPs had not been received at the time of the survey. These are reflected in column 5.

2.30 Table 9 indicates that a majority of Commonwealth agencies is at least moderately satisfied with the quality of performance data, as measured by sufficiency of detail, completeness, reliability, validity/accuracy. However, there are some clear concerns about the timeliness of the data supplied by the States and Territories. The survey and stakeholder comments suggest the reasons behind the problem of timeliness relate to issues such as:

- the incompatibility of some Commonwealth/State data management systems, resulting in duplication of data entry and processing (for example, in primary industries programs);
- lack of continuity in the performance indicators with new indicators often requiring high marginal set up costs and subsequent delays (for example, in higher education);
- variability in efficiency amongst different state agencies or parties in terms of collecting the data (for example, in regard to computer capacity in housing programs);

- the high cost of some data collections and subsequent reporting to the Commonwealth (for example, in regard to research at universities); and
- the sensitivity of the data in terms of the accountability of State/Territory governments to their own electorates (for example, in relation to hospital waiting times for elective surgery or education standards).

2.31 These issues make it more difficult for Commonwealth agencies to fully and effectively manage for results and meet their accountability responsibilities to the Parliament. Table 10 outlines the way that the Commonwealth uses data provided by the States, Territories and other service providers to highlight the importance of performance information for monitoring the achievement of goals and adequately accountability to the Parliament.

Table 10

Survey responses on the use of performance data^(a)

Uses of performance data	Per cent rating this purpose as high/very high	Per cent rating this purpose as moderate	Per cent rating this purpose as low/very low	Per cent not applicable — no performance information
Monitor the achievement of goals	42.9	35.7	8.9	12.5
Plan strategically at the national level ^(b)	26.4	50.9	9.4	13.2
Adequately account to the Parliament	45.6	42.1	0.0	12.3
Make direct comparisons with data from all sources ^(b)	30.8	38.5	15.4	15.4

(a) The valid population for the above table varies from 52 to 56 SPPs due to missing responses. The relatively high number of 'not applicable—no performance information' reflects the number of SPPs that may have recently commenced and are therefore not well placed to respond to these questions.

(b) Percentages do not total 100 per cent due to rounding errors.

2.32 When Table 10 is considered in conjunction with Tables 8 and 9 within this chapter, the analysis suggests that Commonwealth agencies consider that a significant number of SPPs are already measuring key aspects of performance reasonably well. However, the survey also indicates that there are significant variations across agencies and across programs.

SPP Performance Information in Selected Programs

2.33 A more detailed examination of some of the key programs and the lessons learned are set out below for SPPs covering roads, schools, higher education and health and community services. These programs were selected for more detailed examination because they accounted for nearly

80 per cent of SPP funding in 1997–98. To complement the survey responses, the ANAO also examined agreements and any associated documented administrative arrangements, annual reports, evaluation reports, Portfolio Budget Statements along with comments provided by relevant stakeholders.

Roads

2.34 DTRS is responsible for Commonwealth road transport matters through the administrative orders, through Commonwealth Ministers and through the funding provided under the *Australian Land Transport Development Act 1988*. Table 11 summarises two programs managed in DTRS.

Table 11

Survey responses on key SPPs examined within DTRS^(a)

SPPs administered within DTRS	Funding 1997–98 (\$M)	Aspects of performance indicators			
		Effectiveness	Efficiency	Quality	Access and Equity
National Highway System & Roads of National Importance	817	Partially ^(b)	Partially	Partially	Partially
Road Safety Black Spot Program	25	Fully ^(c)	Partially	Partially	Fully

(a) \$370M was also allocated to Local Government for Identified Road Funding in 1997–98 and \$20.25 million for payments under the *Interstate Road Transport Act 1985*. These programs do not have performance information regimes as they relate to General Purpose Payments, to local government and the States/Territories.

(b) Partially Indicators are able to partially measure this aspect of performance.

(c) Fully Indicators are able to fully measure this aspect of performance.

2.35 Australia has one of the largest road provision and road freight responsibilities in the OECD with 800 000 kilometres of road network valued at \$100 billion.⁴⁷ In 1995–96, all Australian governments allocated some \$6.8 billion for road transport. State and Territory Governments contributed approximately \$5.1 billion or 75 per cent of total annual funding. Commonwealth funding for the same period was 25 per cent of the total.⁴⁸ Two of the most significant road programs of the Commonwealth are the National Highways and Roads of National Importance Program and the Road Safety Black Spot Program. Performance information involving Commonwealth and State/Territory programs is

⁴⁷ Productivity Commission (June 1998) *A Comparison of Institutional Arrangements for Road Provision – Staff Research Paper*, p. 1.

⁴⁸ *Op. cit.*, Australian Bureau of Statistics (1998).

developed through AUSTROADS.⁴⁹ System-wide performance information developed for the Commonwealth, States and Territories is outlined in two separate publications.⁵⁰ Examples of performance indicators are outlined in Table 12.

Table 12

Performance indicators for the Australian & New Zealand road system and road authorities

Principal outcomes required by key stakeholders	Road System performance indicators	Road authorities performance indicators
Example of economic outcomes		
Lower road-user costs—for example, vehicle operating costs and travel time	Actual travel time (urban) Nominal travel time (urban) Congestion indicator (urban) User satisfaction index ^(a) User costs/distance travelled ^(a)	Road maintenance effectiveness Return on construction expenditure Return on maintenance expenditure Return on non-road interventions ^(a) Road construction costs ^(a) Achievement index
Example of social outcomes		
Establishment of a basic level of accessibility (particularly in remote areas) to provide improved health and education services and enhanced employment opportunities	Accessibility index (rural/remote) Accessibility to public transport Equity of urban areas ^(a)	No measures yet proposed
Example of safety outcomes		
Lower levels of road-related deaths, injuries and costs through a reduction in the incidence and severity of road accidents	Social cost of casualty crashes Casualty crashes Road fatalities Persons hospitalised	Return on safety expenditure ^(a)
Example of environmental outcomes		
Lower levels of air pollution and greenhouse gas emissions through the management of the road system	Greenhouse gas emissions	No measures yet proposed

(a) These indicators were still under development in 1996.

⁴⁹ AUSTROADS is the national association of Commonwealth and State road transport and traffic authorities with responsibility for the coordination of research, and preparation of guides and standards for improvement in, and harmonisation of practices within an agreed national policy framework.

⁵⁰ See AUSTROADS (1996a) *Australian Road System & Road Authorities National Performance Indicators* (1996); and AUSTROADS (1996b) *Australian & New Zealand Road System and Road Authorities National performance Indicators* (1996).

National Highway System & Roads of National Importance

2.36 The National Highway System was originally declared in 1974 and consists of some 18 500 kilometres of road. Since 1974, the Commonwealth has spent some \$11 billion on its upgrading and maintenance. Funding is determined through an annual appropriation authorised through national legislation. While program objectives have been developed for the national highway system, they are not specified in the *Australian Land Transport Development Act 1988* or in the *Notes on Administration* which accompany the Act and provide administrative procedures and guidelines for the Australian Land Transport Development Program. This finding is consistent with a recent Parliamentary report.⁵¹ The Commonwealth is fully responsible for the National Highway System, although the States and Territories remain the legal owners of the land and the asset.

2.37 In Audit Report No.15 1993–94, the ANAO recommended that DTRS strengthen its performance information (that is, objectives, performance indicators, milestones and targets) to ensure that it had sufficient performance information to assess projects and manage the program effectively.⁵² DTRS stated, in its response to the 1993–94 audit, that performance indicators for monitoring and comparing the performance of State authorities have been under development through AUSTROADS for several years. Performance indicators were also being developed for inclusion in performance agreements proposed to be entered into between the Commonwealth and each state authority.

2.38 However, in October 1997, the Standing Committee on Communications, Transport and Micro-economic Reform was still sufficiently concerned about the lack of performance information to recommend, *inter alia*, that the Commonwealth develop performance indicators against each national highway system objective to provide a basis for the regular evaluation of the performance of the National Highway System.⁵³ It also recommended the regular review of the Program. The Committee indicated concerns about the lack of a Commonwealth asset management strategy for the National Highway System. However, before its introduction, an assessment needed to be undertaken to determine the Commonwealth's resource capacity to gather, maintain and analyse necessary data to implement such an approach effectively.⁵⁴

⁵¹ Standing Committee on Communications, Transport and Micro-economic Reform (1997) *Planning Not Patching – An Inquiry into Federal Road Funding*, p. 23.

⁵² ANAO (1994) *The National Highway 'Lifeline of the Nation'*, Audit Report No.15 1993–94, AGPS, Canberra.

⁵³ *Op. cit.*, Standing Committee on Communications, Transport and Micro-economic Reform, p. 23.

⁵⁴ *Ibid.*, p. 60.

2.39 The ANAO notes that broad performance indicators on road condition (such as roughness, smooth travel exposure, pavement health, and surface condition) as well as efficiency indicators such as road maintenance cost per lane/kilometre, resealing cost per square metre and the proportion of maintenance tendered, are used as indicators of performance and are included in the agreements with the States and Territories.⁵⁵ In addition, the Bureau of Transport and Communications Economics has completed an initial assessment of the total demand for funds under the National Highway and Roads of National Importance Program.⁵⁶ This assessment highlighted recent improvements and extensions to both data and modelling but also noted data deficiencies in areas such as urban roads, flood mitigation projects, major realignment projects and widening roads used by road trains for safety reasons.

2.40 Submissions to the ANAO from stakeholders expressed mixed views but, overall, there was strong support for improvements in performance information. The Australian Automobile Association (AAA) indicated that:

*the program objectives were generally clearly stated and that the use of competitive tendering for construction and maintenance also helped to improve the efficiency of service delivery.*⁵⁷

2.41 However, the AAA also indicated that, while AUSTROADS is responsible for the maintenance and promotion of uniform data on performance standards and road conditions, there [are] varying levels of information collected by the States and Territories and varying ways that benefit-cost criteria are applied. Such variations do not help to support informed decision-making and optimal asset management.⁵⁸

2.42 The AAA was also concerned that the Roads of National Importance component of the program did not appear to be '*as clearly specified as National Highway System objectives and performance measures*'.⁵⁹ Justification for priorities in this category also appeared to be less clear.

2.43 The Road Transport Forum also expressed concern, *inter alia*, about the lack of consistent performance indicators across State jurisdictions and the subsequent problems for accountability. State road agencies in NSW, Victoria, Western Australia and South Australia considered that the

⁵⁵ Although the National Highway program has no sunset clause, the current agreements are of three year duration from July 1997 to June 2000.

⁵⁶ Bureau of Transport and Communications Economics (1997) *Roads 2020*, Working Paper 35.

⁵⁷ Australian Automobile Association Submission, 19 March 1998, p. 3.

⁵⁸ *Ibid.*, p. 3.

⁵⁹ *Ibid.*, p. 3.

program needed to improve the clarity of its objectives or its strategic direction. The Roads and Traffic Authority of NSW (RTA) indicated that current performance agreements were a substantial improvement on past examples. The RTA also highlighted the sensitivity of performance data to State agencies.

2.44 The RTA commented that

*the program agreement included a variety of measures relating to unit rates for various forms of maintenance and the type of service delivery. These rates are affected by a wide variety of factors and the RTA is concerned that simplistic inter-state comparisons in inappropriate forums could create misleading interpretation of NSW performance.*⁶⁰

These sensitivities were also supported by VIC Roads which indicated that

*performance information should be in a consistent format, so that the Commonwealth can make valid performance comparisons across all parties, to an SPP and accurately determine whether national objectives are being met.*⁶¹

ANAO audit observations on the National Highway System

2.45 The National Highway program is one illustration of where Commonwealth and State agencies involved in a long-standing program are still having difficulties measuring performance. While AUSTROADS is a good example of a collaborative Commonwealth-State mechanism to foster improved performance information, there has been no substantial progress in measuring performance on the national highway since 1993–94. The ANAO considers that this is because of factors such as:

- the difficulties in trying to develop a consensus amongst stakeholders regarding a comparable performance information system; and
- the lack of priority given by the Commonwealth agency to performance information for this SPP program.

2.46 DTRS has indicated that the maintenance component of the National Highway program is now managed on a performance basis, with the States and Territories able to utilise the funding available as they wish to achieve agreed results. DTRS advised that it is undertaking a joint review with the States and Territories of the current arrangements including consideration of a business model approach to asset preservation. DTRS also advised that it is involved, to varying degrees, with the States and Territories in project assessment based on performance indicators that examine economic, environmental and regional considerations—but is restricted in its involvement by the resources available. However a major

⁶⁰ Roads and Traffic Authority of NSW Submission, 31 March 1998, p. 5.

⁶¹ VicRoads Submission, 17 March 1998, p. 1.

hurdle for further development of a more business-like approach to asset management is the dichotomy between the need for long term contracts and the annual funding cycle of the Commonwealth road program.

2.47 DTRS indicated that the States and Territories are entering into maintenance contracts of 5–10 years with the private sector for State funded roads and that at most, the Commonwealth forward estimates provide 3 years of indicative funding levels. DTRS considers that this makes it difficult for the States and Territories to enter into long term contracts with certainty for Commonwealth funded roads. Significant savings could be achieved if the Commonwealth could commit to funding for a 5–10 year period. The current short term arrangements limit partnerships with the private sector for the construction of new projects.

2.48 There are clear benefits in longer-term arrangements as recommended by the House of Representatives Committee Report into road funding.⁶² For example, the advantages would include improved project planning and greater certainty for funding recipients. However, these advantages need to be weighed against the benefits for government of budget flexibility from short-term agreements. The ANAO notes that the decision is ultimately one for the Government.

Road Safety Black Spot Program

2.49 The Road Safety Black Spot Program (1996–2000) is directed at improving the physical condition or management of hazardous locations with a history of crashes involving death or serious injury. The Program is funded through the States and Territories in accordance with the provisions of the *Australian Land Transport Development Act 1988*.⁶³ The objective of the program is to reduce the social and economic costs of road trauma by, *inter alia*, the identification and cost effective treatment of sites and areas with a record of casualty crashes.

2.50 Road Safety Black Spot Program *Notes on Administration* provide a coherent framework for program efficiency and accountability. Evaluation criteria and performance indicators have been built into the program from the outset. These indicators were based on the lessons learned from the evaluation of the Black Spot Program, administered between 1990–91 and 1992–93. For each approved project, the States/Territories are to provide the Commonwealth with a range of specific data including, *inter alia*:

- the number of crashes (severity and type) at each Black Spot site (quarterly for at least three years before and three years after treatment construction);

⁶² *Op. cit.*, Standing Committee on Communications, Transport and Micro-economic Reform (1997), pp. xxiii–xxx.

⁶³ Bureau of Transport and Communications Economics (1995) *Evaluation of the Black Spot Program*.

- a record of start and finish dates of the treatment construction; and
- proposed and final cost of the project and an estimate of annual maintenance and operating costs.

2.51 Stakeholders were broadly supportive of the administration of the Road Safety Black Spot Program. The AAA indicated that in NSW in particular,

the [National Roads and Motorists Association] is generally satisfied with the objectives and delivery of the program.⁶⁴

According to the AAA, projects had been well screened and ranked in terms of program criteria using benefit cost ratios. Adequate community group input and consultation had also been achieved in NSW.

2.52 VicRoads noted that while it was too soon to make any assessment of cost effectiveness of projects,

based on previous programs, good returns on project investment in the order of \$4 for every dollar invested can be expected.⁶⁵

2.53 The RTA noted that,

program objectives, outputs and outcomes are clearly expressed [and the program was a] well understood and essential component of road safety programs in NSW.⁶⁶

2.54 South Australia had some concerns about conflicting objectives with other roads programs but considered that overall, performance information was clearly articulated and would be used as part of program evaluation.

ANAO audit observations on the Road Safety Black Spot Program

2.55 The ANAO considers that the performance indicators used by DTRS in this case have been well integrated into the administration of the program and provide a sound indication of how effective the program has been in achieving the desired outcomes. While further refinement of efficiency and quality measures has been acknowledged by the Agency, there is sufficient information to make judgements as to how efficient the program has been in using inputs to produce the required outputs. The program is a good example as to where performance information has been used to create a level of transparency that assists the agency to better manage performance and strengthen its accountability to the Parliament.

Schools and Higher Education

2.56 Table 13 highlights the schools and higher education SPPs in DETYA which constitute approximately 80 per cent of DETYA's SPP funding.

⁶⁴ *Op. cit.*, Australian Automobile Association, p. 4.

⁶⁵ *Op. cit.*, VicRoads, p. 4.

⁶⁶ *Op. cit.*, Roads and Traffic Authority of NSW, p. 2.

Table 13**Survey responses on key SPPs examined within DETYA**

SPPs administered within DETYA	Funding 1997-98 (\$M)	Aspects of performance indicators			
		Effectiveness	Efficiency	Quality	Access and Equity
Schools—General and Targeted Assistance (4SPPs)	3 771	Partially ^(a)	Partially	Partially	Partially
Higher Education	3 480	Fully ^(b)	Partially	Partially	Fully

(a) Fully Indicators are able to fully measure this aspect of performance.

(b) Partially Indicators are able to partially measure this aspect of performance.

Schools

2.57 School education is one of largest areas of State and Territory Government expenditure with government schools accounting for the majority of this expenditure. Approximately \$15 billion was spent on government and non-government schools in 1995–96. The Commonwealth contributed approximately 21 per cent (\$3.2 billion) of total public expenditure in schools.

2.58 Commonwealth, State and Territory Ministers have agreed on eleven common national objectives for school education in Australia. They include, *inter alia*, to develop students' skills in the following areas:

- English literacy, including the skills of listening, speaking, reading and writing;
- numeracy and other mathematical skills;
- analysis and problem solving; and
- information processing and computing.⁶⁷

2.59 Collaborative performance measures based on these objectives are managed and reported through the Ministerial Council on Education, Employment, Training and Youth (that is, through the National Report on Schooling in Australia) and the Steering Committee for the Review of Commonwealth/State Service Provision.⁶⁸ This latter group, which is independent of DETYA and reports through the Council of Australian Governments, has noted that the quality of performance information on schools has gradually improved over time. For example, school education

⁶⁷ *Op. cit.*, Steering Committee for the Review of Commonwealth/State Service Provision (1998), p. 38.

⁶⁸ *Ibid.*, p. 39.

has reasonably comparable indicators that can measure government expenditure per student, staff expenditure per student, capital expenditure per student and staff level per student.

2.60 Performance information on effectiveness has improved since the introduction of national school testing against international benchmarks of numeracy and national benchmarks of literacy. This testing has assisted in addressing some of the problems discussed in the Senate Employment, Education and Training References Committee Report (1995), which was concerned that

*using easy to measure performance indicators, for example, that may focus on efficiency (narrowly defined) rather than effectiveness, could give a distorted picture of actual performance.*⁶⁹

2.61 However, as noted in the 1998 Steering Committee report, gaps remain in measuring and reporting both social objectives of schooling and comparable information on access and outcomes for special needs groups. DETYA recognises these gaps and has a number of research projects in train to address these shortcomings. Improvements are expected for the next report of the Steering Committee for the Review of Commonwealth/State Service Provision.

2.62 Submissions to the ANAO were received from:

- the Australian Council of State School Organisations Inc.;
- State Catholic Education Commissions in Victoria, Queensland, Western Australia, South Australia and the ACT; and
- State Education Departments in Victoria, South Australia and the ACT.

2.63 While these bodies made some comments about the cost of data collection and the difficulties in measuring educational outcomes, most stakeholders indicated that Commonwealth SPPs had reasonably clear objectives and identifiable outcomes.

ANAO audit observations on the Schools Programs

2.64 The ANAO considers that the schools program provides a good example as to where performance information can be improved through a disciplined approach involving:

- a strong commitment from a Ministerial Council and the agency to improving the measurement of performance over time;

⁶⁹ Senate Employment, Education and Training References Committee (1995) *Accountability in Commonwealth-State Funding Arrangements in Education*.

- external scrutiny to encourage improvement (in this case provided through regular review and disclosure through published reports of the Steering Committee for the Review of Commonwealth/State Service Provision; and
- nationally comparable testing resulting in consistent, valid and reliable data that can compare the types of outcomes achieved over time.

2.65 These findings illustrate marked progress since Audit Report No.25 1995–96 *Performance Information—Department of Employment, Education, Training and Youth Affairs* which found that the Department had, at that time, developed performance indicators providing information on the achievement of its objectives in terms of both efficiency and economy. In most cases effectiveness indicators had also been developed which measured, at least in part, the achievement of these objectives.

2.66 While the process of measuring results is far from complete, substantial progress has been achieved in an area where it is particularly difficult to measure outcomes and attribute cause and effect. For example, it can be difficult to establish a causal relationship between the role of a given program within a school and the actual performance being measured. This is because learning is a complex process and the starting point for individual schools or students may vary with location or social background. These factors should be taken into account in the development of the program objectives and performance assessment criteria.

Higher Education

2.67 Higher education institutions in Australia are funded under the *Higher Education Act 1988*. Payments are made directly to higher education institutions. The objectives of the Higher Education Program are:

- to expand equitable access to higher education while increasing private investment in higher education;
- to improve the quality of teaching and learning in higher education; and
- to support and develop a diverse and publicly accountable higher education system.

2.68 In 1996, the operating revenue of higher education institutions amounted to some \$8.1 billion, 57 per cent of which came from Commonwealth government grants valued at \$4.6 billion.⁷⁰ The proportion of income received from State and Territory Governments for most

⁷⁰ This figure includes research funding in addition to the Higher Education funding.

institutions ranged from 0–2 per cent. Most Commonwealth funds are allocated as block operating grants.

2.69 Performance data is collected from universities for a range of purposes. Such data:

- provides a basis for selection of institutions by prospective students, (for example, by comparing student/staff ratios, pass rates, retention rates or graduate satisfaction or employment rates);
- enables comparisons to be made regarding the performance of different institutions (for example, by comparing student participation rates, proportions of tenured staff, academic qualifications of teaching staff or administrative expenses); and
- enables DETYA to satisfy its accountability requirements to the Parliament (in terms of demonstrating value for money from program expenditure and the achievement of program objectives).

2.70 An internal review by DETYA suggests that the performance indicators used by the agency are limited in that they do not capture the full diversity of institutions nor reveal all of the factors affecting institutional performance.⁷¹

2.71 However, the ANAO considers that, while performance information could be improved in Higher Education (for example, with a stronger focus on learning outcomes), there is nevertheless sufficient performance information on higher education institutions to make reasonable judgements on the extent to which the program objectives are being met. Improvements are continuing to be made in measuring quality (through applying independent quality assurance to enhance learning outcomes at universities) and access and equity through a three-year trial (commenced in 1995) aimed at collecting data on the access, participation, success and retention of each equity target group using standardised definitions and performance indicators.

2.72 DETYA has also introduced data validation and quality assurance across all indicators to improve the accuracy and comparability of data supplied by university institutions. Commonwealth supplied software is used by institutions to test the data before it is forwarded to DETYA. This is then checked and prior year comparisons made before being displayed on the Internet.

⁷¹ Department of Employment, Education, Training and Youth Affairs (1997) *Characteristics and Performance of Higher Education Institutions (A Preliminary Investigation)*.

2.73 A further area where DETYA has used performance information is in terms of managing risks. In particular, a 1997 consultancy report analysed the financial statements of higher education institutions between 1993 and 1996. The consultancy, which is being repeated annually, was designed to assist DETYA and institutions in financial planning and risk management within the context of planned reductions in Commonwealth operating grants foreshadowed for the 1997–99 triennium. The ANAO considers that analysing the potential distributional impacts of administrative changes before they are implemented is a sound practice and a useful model for other Commonwealth agencies to consider.

2.74 Submissions to the ANAO were received from thirteen tertiary institutions and the Australian Vice-Chancellors' Committee on this SPP program. Comments were generally positive. For example, the Queensland University of Technology notes that, while there is a tendency for the Commonwealth to measure inputs rather than outputs and outcomes, '*there is a discernible but slow progress towards outcomes*'.⁷² The University of Queensland noted that,

*DETYA's requirements impose a useful external discipline and ensure that consistent and common measures are available for direct performance comparisons among peer institutions.*⁷³

2.75 The most common areas of concern were the time and cost of collecting performance information, the timing of requests for data, as well as some concerns over feedback on how the performance information is used by DETYA. However, Charles Sturt University noted the streamlined reporting requirements introduced in 1994 were particularly useful in allowing valid comparisons of each university's trading result and financial position.⁷⁴

ANAO audit observations on Higher Education Program

2.76 The ANAO considers that the Higher Education SPP program provides a good illustration of where the Commonwealth is developing a sound client-focussed approach to program administration. Performance information has been integrated into the management decision-making process. However, because key data sets are published, this approach can be used by university institutions for benchmarking purposes and by potential students in terms of making informed choices as to educational opportunities. The application of standardised Commonwealth software

⁷² Queensland University of Technology Submission, 13 March 1998, p. 2.

⁷³ University of Queensland Submission, 25 March 1998, p. 1.

⁷⁴ Charles Sturt University Submission, 12 March 1998, p. 1

and quality assurance can also assist to substantially overcome problems of valid comparisons across different institutions. Higher education is also a good example of a program area that has used performance information to better manage risks and identify distributional impacts from changes in government policy direction.

Health and Community Services

2.77 Table 14 highlights aspects of performance indicators for several Health SPPs.

Table 14

Survey responses on key SPPs examined within the former DHFS

SPPs administered within the former DHFS	Funding 1997-98 (\$M)	Aspects of performance indicators			
		Effectiveness	Efficiency	Quality	Access and Equity
Base Medicare/Bonus Payments (2 inter-related SPPs) ^(a)	5 024	Partially ^(b)	Partially	Not at all ^(c)	Partially
Home and Community Care (HACC)	476	Partially	Partially	Partially	Partially
Disability Services*	317	*	*	Not at all	Not at all
Aged Care Assessment	40	Partially	Partially	Partially	Partially

(a) Performance related funds are a component of Bonus Payments but the performance targets are broad indicators of public hospital performance, which is funded through Base Medicare.

(b) Partially Indicators are able to partially measure this aspect of performance.

(c) Not at all Indicators do not measure this aspect of performance.

* Agreement has since been renegotiated and now Commonwealth, State and Territory Governments have agreed to report against nationally consistent performance indicators of efficiency and effectiveness.

2.78 In 1995–96, total health services expenditure, including expenditure by the government and non-government sectors, was \$41.3 billion and the preliminary estimates for 1996–97 are \$43.2 billion representing an estimated 8.5 per cent of Gross Domestic Product.⁷⁵ In 1996–97 the Commonwealth Government provided 45.5 per cent of the total funding. Between 1992–93 and 1996–97, the Commonwealth Government's share of expenditure funding grew from 43.8 per cent to 45.3 per cent while that of the States and Territories declined. The major area of recurrent expenditure was in public (acute care) hospitals with expenditure of \$11.3 billion in 1995–96. Public hospitals are the major funding targets for the Commonwealth Base Medicare Agreement and Bonus Payments SPPs. In 1995–96 the Commonwealth contributed 46 per cent of the total costs of

⁷⁵ *Op. cit.*, Australian Bureau of Statistics (1998), p. 302.

recurrent health expenditure while the States, Territories and local government contributed 45 per cent. The non-government sector meets the remaining costs.⁷⁶

2.79 Health and community services programs are characterised by increasing demand for services as a consequence of demographic changes, such as the aging of the population. There has also been open disputes between the Commonwealth and the States and Territories over funding levels and responsibilities in the health area and major disagreements with the States and Territories and some service providers in areas such as Home and Community Care (HACC) and Disability Services. Within this environment, the development of quality performance information has proved difficult and protracted. Nevertheless, the former DHFS put in place a range of actions aimed at enhancing performance information. Health have indicated that these actions aim to measure performance systematically against key Government policy objectives. Each year, prospective performance indicators are published in the Department's Portfolio Budget Statements at the time of the Federal Budget. At the end of the financial year, the Department reports its performance against these indicators in its Annual Report. This information generally relates to aggregate performance of programs and sub-programs.

2.80 Health considers that the role of the SPP is to provide a vehicle for funding which contributes to achieving wider objectives at that broader level. The ANAO recognises that performance information can be reported at different levels of aggregation depending on factors such as the level of funding and the importance to Government objectives. However, SPPs involving substantial financial outlays and important policy objectives and agreements signed by Ministers are materially significant to a program or sub-program. Consequently, the ANAO considers that performance against SPP program objectives in SPP Agreements should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and
- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

⁷⁶ Australian Institute of Health and Welfare (1998) *Australia's Health*, pp. 163–167.

2.81 DHFS's *Information Management Plan (1997–98)* noted that managing information is central to the work of the agency. While broader than just SPPs, the vision in this Plan was for the former DHFS to be:

*a leader in the development of and contribution to a national health and family services information infrastructure, for the benefit of all Australians.*⁷⁷

2.82 The plan indicated that DHFS actively supports the development of national standards for data and information management and is building a substantial and coherent set of national performance indicators across the health and family services sectors. While no specific time frames have been placed against individual strategies or actions, the intention was to have all actions completed or substantial progress made by the end of 1997-98. Some of the key challenges and opportunities noted by the former DHFS were, *inter alia*:

- developing ways to improve the use of information for Commonwealth decision-making;
- addressing data and information which are fragmented by DHFS's organisational divisions;
- constructing methods of overcoming the problem that most of DHFS's information systems focus on operational requirements without contributing to meeting the strategic information needs in support of management and policy advising; and
- developing ways of facilitating greater collaboration with State and Territory Governments in the development and sharing of information, including through the National Health Information Management Group and the National Community Services Information Management Group.⁷⁸

2.83 A Commonwealth-State framework for the implementation of improved performance information is also provided through the National Health Information Agreement which was formally signed by the Commonwealth and the States/Territories in 1993 and recently extended to 2003. One of its objectives is to provide cooperative national structures and mechanisms to improve the collection, quality and dissemination of national health information. The Agreement is managed by the National Health Information Management Group. Outputs have included the National Health Information Model, the National Health Data Dictionary and the National Aboriginal and Torres Strait Islander Health Information Plan. These outputs provide the basis for building common performance information system across jurisdictions.

⁷⁷ Department of Health and Family Services (1997) *Information Management Plan 1997–98*, p. 6.

⁷⁸ *Ibid.*, pp. 16–20.

Acute Care in Public Hospitals (Base Medicare and Bonus Payments SPPs)

2.84 The Commonwealth's objectives for both the above programs were stated in the Medicare Agreement (1 July 1993 to 30 June 1998) and included the right of eligible persons to have the choice to receive public hospital services free of charge as public patients. Access was to be based on clinical need. The Commonwealth and the States and Territories also made a commitment to secure improvements in the efficiency, effectiveness and quality of hospital service delivery. This commitment was to address quality improvements in efficiency, effectiveness and quality of hospital service delivery.⁷⁹ The 1998–2003 Australian Health Care Agreement which replaced the Medicare Agreement broadly continues the approach adopted previously.

2.85 Adequate performance information regarding acute care in Australia's public hospitals is particularly important because Australia, like other developed countries, is faced with rising health care costs, rising demand for health care services, and greater consumer expectations of quality and improved health care outcome.⁸⁰ The National Health Ministers' Benchmarking Working Group report on Health Sector Performance Indicators (1996) has provided an initial step towards improved performance information. The Working Group developed a set of hospital performance indicators in the areas of efficiency, productivity, quality and access. These indicators were developed in the light of current national data collections and, for some measures, through discussions with other working groups and programs. However, the ANAO notes that the quality of available data was highly variable, and in only a few cases was collected data based on nationally consistent definitions.

2.86 Subsequent to the work of the National Health Ministers' Benchmarking Working Group, the Health Services Outcomes Branch developed *Quality and Outcome Indicators for Acute Healthcare Services*.⁸¹ The project critically reviewed the status of Australian and overseas knowledge regarding the development and use of quality of care and health outcome indicators in acute care services. It specifically sought to identify performance indicators contributing to improvements in the quality and outcomes of acute care. These were designed to help inform the

⁷⁹ Agreement between the Commonwealth of Australia and the State of Western Australia in relation to the provision of Public Hospital Services and Other Health Services (1 July 1993–30 June 1998).

⁸⁰ National Health Ministers' Benchmarking Working Group (1996) *First National Report on Health Sector Performance Indicators – Public Hospitals - the State of Play*.

⁸¹ Department of Health and Family Services (1997) *Quality and Outcome Indicators for Acute Healthcare Services: a research project for the National Hospital Outcomes Program (NHOP)*.

development of a set of nationally consistent quality of care and health outcome indicators for acute health care services in Australia. The ANAO notes that this study recommended a national set of core indicators targeted to specific conditions, diseases, diagnoses or interventions, as well as a balanced portfolio of clinical indicators, health status, acceptability and cost indicators. The development of the indicators was proposed to involve a collaboration between government, regulatory bodies, providers and consumers of health care.⁸² The ANAO supports this approach but notes that the development of these indicators is still at an early stage. For example, the report noted that most existing quality and outcome indicators are imperfect. Furthermore, for the majority of indicators examined, there was insufficient information available on indicator attributes to allow the National Hospitals Outcome Program research team to draw firm conclusions about indicator performance. The research team saw the current generation of indicators as stepping stones to better indicators in the future.

2.87 Consequently, while the Commonwealth and the States and Territories have undertaken a range of activities designed to improve health performance information, there has not been a substantial improvement in such information over the life of the agreement. As noted by the Steering Committee for the Review of Commonwealth/State Service Provision:

*the lack of generally accepted indicators of the quality of care provided in Australia's public acute care hospitals continues to be a major concern. The Steering Committee has continued to report all available information, even though both the indicators and the data are far from ideal, pending the development of something better by the sector.*⁸³

2.88 Health has commented that there are very significant difficulties involved in reaching agreement with the States and Territories on SPP funding agreements generally and, specifically, where these seek to include extensive performance reporting requirements. Health noted that:

the process of bargaining frequently involves trade-offs between the Commonwealth and the States and Territories about the obligations on States and Territories. This might include negotiations about the extent of reporting requirements in order to achieve State/Territory agreement.

2.89 Some progress has been made in measuring efficiency. For example, the 1996–97 DHFS Annual Report included efficiency indicators and outputs such as the average length of stay (a 20–30 per cent decrease),

⁸² *Ibid.*, p. 49.

⁸³ *Ibid.*, p. xxxii.

operating theatre throughput (a 10–40 per cent increase) and planned readmissions to operating theatres (an 8 per cent decrease).⁸⁴ However, no nationally consistent measure of the unit cost of diagnostically related hospital services has yet been agreed between the Commonwealth and the States and Territories. Similarly, while State/Territory jurisdictions have achieved their specified targets of access and equity, the underlying performance indicators are not nationally consistent. Health has indicated that it is trying to improve the performance indicators and measures for some programs or sub-programs by:

- working with the States and Territories to improve the availability of nationally comparable data on services (in many cases this involves investment in new information technology as well as agreement on data definitions);
- refining the existing indicators in the light of experience in reporting against them; and
- improving the definition of the outcomes to be achieved and the outputs to be delivered.

2.90 The ANAO recognises that methodological problems of measuring acute health care are a real challenge for accountability and performance measurement in health agencies. Health has indicated that difficulties in comparing health indicator information across jurisdictions let alone countries has been acknowledged by the OECD. In Australia, as in other OECD countries, there are practical difficulties in measuring the output of health services given that the wide variability in the mix of treatment and ancillary care that can be provided to patients. This variability is further compounded when outputs are measured over time. This is because changing medical technology and changing institutional arrangements may result in significant changes in the quality of the same types of services from year to year.⁸⁵ Although Casemix⁸⁶ provides a generic classification method for acute care services, Health (through the Australian Institute of Health and Welfare) has developed a national health information model that could further assist in measuring outputs and linking outputs and outcomes.

⁸⁴ Department of Health and Family Services (1997) *Annual Report 1996–97*, p. 95.

⁸⁵ Australian Bureau of Statistics (1997) *Measuring Aggregate Productivity for Government Services – Issues and Some Experimental Estimates*, IQPC Conference – Performance Measures for Government 16–18 July 1997, Background Paper.

⁸⁶ Casemix is a funding system for acute hospital care that is based on the number and type of patients treated within an overall capped budget. Under Casemix a statistical analysis is independently conducted to identify the average cost of treatment across a sample of public hospitals for each group of patients with similar diagnoses. Cost weights are then calculated which when applied against a standard unit payment, produce the reimbursements payable per patient group. Casemix also enables the performance of different types of hospitals to be objectively compared.

2.91 These measurement difficulties at the national level are also clearly apparent at the state level. Although performance measurement has generally improved in Western Australia in recent years, a report on the public health sector from the Auditor-General of Western Australia found that:

38 hospitals and other health agencies (out of 103) did not provide sufficient effectiveness indicators to address key elements of the Health Department of Western Australia's hospital program objectives. In addition, many of these agencies did not report sufficient indicators to address the range of health services provided including in-patient, out-patient, emergency, surgery, obstetric and paediatric services.⁸⁷

2.92 In Victoria, the Auditor-General commented in a 1998 report of Acute Health Services under Casemix that:

the time frame for the implementation of casemix funding did not permit the former Department of Health and Community Services to develop appropriate quality indicators nor establish baseline data against which assessments of quality of care could be made post-casemix. In addition, appropriate indicators of quality of care at the time of the introduction of casemix were not sufficiently developed in either Australia or overseas.⁸⁸

Community Services

2.93 As noted in the Steering Committee for the Review of Commonwealth/State Service Provision report, community services supplement support provided by the non-government sector or informally through family, friends and the community as a whole. They encompass financial assistance to those in crisis and short term or transitional support.⁸⁹ Some of the major SPPs include the HACC Program, Disability Services and Aged Care Assessment.

2.94 Five per cent of the 8036 employing businesses and organisations that provided community services in 1996 were government service providers although these organisations accounted for 27 per cent of all community service expenditure. Non-profit organisations undertook 54 per cent of direct service expenditure in 1995–96 while profit-making institutions accounted for the remaining nineteen per cent of expenditure. In addition, the needs of many clients in community services may be met by single service providers, but there are many clients with complex needs

⁸⁷ *Op. cit.*, Office of the Auditor-General of Western Australia (1998), p. 20.

⁸⁸ *Op. cit.*, Victorian Auditor-General's Office (1998), pp. 4–6.

⁸⁹ *Op. cit.*, Steering Committee for the Review of Commonwealth/State Service Provision, Vol. 2, p. x/ix.

who rely on services provided by more than one organisation, funded through more than one program, and often administered by different departments. There is no information on the performance of these services as a package, although the introduction of case management and the better coordination of policy may improve the delivery of services.⁹⁰

2.95 This complexity creates significant challenges for the development of accurate, reliable and comparable measures of performance. Nationally consistent community services information has been identified as a key component in the implementation of the Council of Australian Governments proposed reforms to health and community services and public housing.⁹¹ While the information problem has been widely recognised, a number of important initiatives have been set in train to find solutions. A classification system for the community services sector was developed by the Australian Institute of Health and Welfare and the Victorian Department of Human Services, in conjunction with all community service departments, the Australian Bureau of Statistics and representatives from the non-government sector. The classification system was used as the basis for a survey of the community services industry in 1995–96. The 1998 Disabilities Agreement now contains nationally consistent performance indicators of efficiency and effectiveness and strengthened reporting requirements. The HACC Agreement is currently being re-negotiated.

2.96 A further development has been that a national community services agreement came into effect in 1997. The agreement has been designed to put in place the consultative structures and processes necessary to improve the national information available across the community service sector. Parties to the agreement include the Commonwealth, State and Territory and community services authorities, the Australian Bureau of Statistics and the Australian Institute of Health and Welfare. The agreement covers the areas of aged care, disability services, children's services, child protection services, juvenile justice and emergency relief services. A National Community Services Information Management Group, comprising senior representatives of the signatories to the agreement, has been set up to manage the agreement and to oversee the National Community Services Data Committee. This Committee is responsible for coordinating the development of data definitions, standards and classifications. An overall objective is to promote consistency between the national health and community services definitions and standards. The National Community

⁹⁰ *Ibid.*, p. x/ix.

⁹¹ Council of Australian Governments' Communique from the June 1996 meeting.

Services Information Management Group is now in the process of drafting the National Community Services Development Plan. The Plan will provide a five to ten year vision for community services development and recommend a set of directions for more immediate development activities.

Views of the States, Territories and non-government organisations

2.97 Submissions on health and community services programs were received from the State/Territory agencies responsible for health and community services in Queensland, Western Australia, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory. Comments were also received on particular programs from a range of professional groups and other non-government organisations.⁹² Some of the key points made were that current health and/or community services SPPs were characterised by:

- being too focused on inputs and compliance with process requirements rather than program outcomes;
- lacking in flexibility in terms of allocating funds to meet state priorities and regional and local needs;
- variability in terms of data and reporting requirements (a lack of data to monitor effectively or promote improvements were noted in relation to the National Drug Strategy but reporting requirements were considered excessive in the HACC Program);
- duplication and overlap of staff and systems in dealing with administrative, policy, planning and service delivery arrangements;
- insufficient consultation on program design and a lack of feedback from the Commonwealth on the management and use of performance data;
- cost shifting (particularly between the hospital and independent pharmacy sectors);
- inadequate application of incentives and sanctions to ensure compliance with objectives or to address breaches of service standards;
- lapses in quality assurance over time; and
- significant variances in practice within and between States and Territories.

2.98 In some instances, the nature of the comments made suggest that a closer scrutiny of program administration may be warranted than can be provided through this broad cross portfolio audit. Consequently, they will be further considered within the context of the ANAO's audit strategy for 1999–2000.

⁹² A complete list of agencies that made submissions is included at Appendix 5.

ANAO audit observations on Health and Community Services Programs

2.99 SPPs in the former DHFS examined through the survey have significant shortcomings in their performance information. Performance information is not integral to many of the programs at the present time. However, the former DHFS had recognised the problem. Health is endeavouring to introduce administrative improvements to enhance the quality of data supplied by the States and Territories and other service providers. Given that comparable information may not yet exist at the service delivery level, this presents a real challenge for the Commonwealth. This is especially so given the reluctance by some States to acknowledge the need for performance information to be forwarded to the Commonwealth in areas traditionally regarded as State/Territory responsibilities. The ANAO considers that a stronger commitment and a timetable for comparable data sets are required from all levels of government before performance information could be regarded as adequate for the programs examined. Given the tensions and mix of funding sources, the performance information regime should be collaborative and mutually beneficial to the operational and accountability requirements of each jurisdiction.

2.100 The former DHFS has noted that the Pathology Health Program grants and the Highly Specialised Drug Program (which together account for some three per cent of the value of all DHFS SPPs and which consequently were not examined in any detail by the ANAO) have well defined objectives and performance information systems. While the ANAO recognises that some SPPs in DHFS have been well designed and implemented for performance measurement, the majority of SPPs examined in this audit leave substantial room for improvement.

Managing for results conclusions

2.101 Audit Report No.21 1994–95 *Specific Purposes Payments to and through the States and Territories* found that ‘*pockets of good performance existed across SPP programs*’.⁹³ Approximately one-quarter of those SPPs that required data from the States and Territories reported that they had problems with the quality of data returns. From the 1997–98 survey, it is clear that progress has been made to improve the quality of performance information used for management and accountability purposes, although this progress has been patchy across SPPs and uneven across agencies. Some agencies indicated in their 1997–98 survey responses that their SPPs are achieving their goals. However, the ANAO notes that, as many SPP performance

⁹³ *Op. cit.*, ANAO (1995), p. xii.

indicators do not measure SPP effectiveness, there is no objective means of measuring program performance in such cases. This further suggests that the current performance information systems within agencies do not tell the full story as to performance achievement. It also supports the finding that programs could be strengthened by better incorporating elements such as intermediate level outcome measures, targets and milestones if the ultimate outcomes cannot be measured within the reporting time frame.⁹⁴

2.102 Particular improvements or steps to achieve improvements in measuring SPP performance results were noted in three of the agencies with the greatest responsibilities for SPPs—that is, DETYA, DTRS and Health. DETYA has made substantial progress in measuring the performance of SPPs covering schools and higher education. DETYA now has sufficiently accurate, reliable and valid performance information to compare national, and in some cases international, performance. While improvements can still be made to key indicators of performance (particularly in terms of learning outcomes), the ANAO considers that DETYA, in collaboration with the States and Territories, has made substantial progress towards answering the broad question of how efficient and effective total government funding has been in achieving the primary objectives set by Governments. Examples of good practice have been identified which provide the opportunity for adoption or adaptation by other Commonwealth agencies.

2.103 In DTRS, the clear, measurable objectives set out for the Road Safety Black Spot Program and the ex-ante evaluation criteria originally built into the program have helped to give the program a strong focus on results. This contrasts with the National Highway program where the performance information regime could be considerably enhanced so that it is clearer as to whether each of the program objectives are being achieved—particularly in terms of demonstrating value for money from the Commonwealth investment in the national highway. The size of the investment also underscores the importance of ensuring that a cost effective performance information framework is put in place as soon as practicable.

2.104 The former DHFS had, over the past three years, made a substantial investment in improving its performance information framework relevant to programs in Health. However, progress has been slow—particularly in the acute care program and community services programs (including four SPPs that have been transferred from the former DHFS to FACS following the 1998 federal election). As noted by Health,

⁹⁴ *Op. cit.*, Department of Finance and Administration (1998).

the process of bargaining frequently involves trade-offs between the Commonwealth and the States and Territories about the obligations on States and Territories. This might include negotiations about the extent of reporting requirements in order to achieve State/Territory agreement.

While recognising the difficult environment for Health programs, substantial improvements are necessary to bring most of its SPPs up to an adequate standard of accountability and to provide important management and performance information. Health is not alone in these respects. Although performance measurement has generally improved in Western Australia in recent years, an audit report into health services in that State identified difficulties in effectively measuring performance in health programs.⁹⁵ Victoria's Auditor-General also reported similar difficulties.⁹⁶ The ANAO recognises that acute care is particularly difficult to measure because of the heterogeneous nature of the services provided and the rapid rate of technological change within the medical industry.

2.105 Health considers that performance information should be considered in relation to the broader programs or sub-programs of which its SPPs are a part. The ANAO recognises that performance information can be reported at different levels of aggregation depending on factors such as the level of funding and the importance to Government objectives. However, because of the size of Commonwealth health funding (\$5.0 billion just for public hospitals alone in 1997–98) and the size of health sector to the economy (health expenditure represents an estimated 8.5 per cent of Gross Domestic Product)⁹⁷, performance against SPP program objectives in SPP Agreements should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and
- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

⁹⁵ *Op. cit.*, Office of the Auditor-General of Western Australia (1998a), p. 20.

⁹⁶ *Op. cit.*, Victorian Auditor-General's Office (1998), pp. 4–6.

⁹⁷ *Op. cit.*, Australian Bureau of Statistics (1998), p. 302.

Recommendation No.2

2.106 The ANAO *recommends* that agencies, where they have not already done so:

- a) ensure that, in the development of core performance indicators, they cover issues of effectiveness, efficiency, quality and access and equity as integral to the measurement and/or assessment of performance as soon as practicable;
- b) set a timetable to develop comparable data sets for performance in program administration that could be considered by appropriate Ministerial Councils or the Council of Australian Governments;
- c) develop, in accordance with the agreed timetable and in consultation with the States and Territories, core performance indicators and related data sets that can be used by the Commonwealth and the States and Territories to measure and/or assess performance over time;
- d) consider options for the use of an independent third party to collect mutually relevant performance information and monitor performance; and
- e) provide regular feedback to the States and Territories on the value, appropriateness and cost effectiveness of performance data supplied by them.

Agencies responses

2.107 All key agencies agreed with this recommendation except: Health which agreed with qualification; A-Gs which disagreed with part (d); DTRS which agreed with qualification to part (d); and Treasury which did not comment.

2.108 Health agreed with qualification because it considers that performance information should be considered in relation to the broader programs or sub-programs of which its SPPs are a part. The ANAO notes that this is not consistent with the ideal SPP model recommended by the JCPAA (in JCPA Report 342 and JCPAA Report 362) that includes

*measurable performance indicators ... linked to and specified for each SPP program objective and basic data collection requirements ... identified for each performance indicator.*⁹⁸

The ANAO also notes that there is a range of ways to collect performance information **including** at the broader program or sub-program level. However, given the billions of dollars paid to the States and Territories to

⁹⁸ *Op. cit.*, JCPAA (1998), p. 57.

achieve stated SPP objectives, SPP performance should be readily available to Parliament and the public as recommended by the JCPAA. In this context, SPP performance can be measured in terms of performance indicators, targets and milestones contained in SPP Agreements and/or any associated documented administrative arrangements. Unless performance is measured at the SPP level (particularly where such SPPs are financially material), there is a risk that:

- the contribution of individual SPPs to overall program performance cannot be identified and evaluated adequately; and
- the performance information at any broader sub-program or program level will not be sufficiently accurate or valid for program management or accountability purposes.

2.109 A-Gs disagreed with part (d) as it has had difficulties using an independent third party to collect performance information. These difficulties related to the management of the third party contractor in a complex policy environment. DTRS's qualification relates to part (d) which it agreed subject to cost considerations.

Evaluating and Reporting Performance

Program Evaluation

2.110 Program evaluation is one of the critical tools available to assess program performance. It is measurably different from the day to day monitoring of program implementation, although program evaluation can be viewed as part of the same continuum of performance measurement and analysis.⁹⁹ It has been defined as the systematic assessment of the appropriateness, effectiveness and/or efficiency of a program or part of a program.¹⁰⁰ It is also a key component of Corporate Governance.¹⁰¹ Together with performance indicators and other performance measures, evaluation can assist in providing credible information for strategic internal management and control purposes and for assisting in meeting the external accountability requirements of the Parliament. Case Study 2 illustrates a disciplined approach to measuring outputs and outcomes succinctly.

⁹⁹ *Op. cit.*, Department of Finance and Administration (1998), p. 3.

¹⁰⁰ ANAO (1998) *Program Evaluation in the Australian Public Service*, Audit Report No.3 1997–98, p. 3.

¹⁰¹ Corporate Governance describes the overall management of an organisation including authority, accountability, stewardship, leadership, direction and control. For more information refer to ANAO (1997) *Principles for Core Public Sector Corporate Governance*.

Case Study 2

The Road Safety Black Spot Program (\$25.3 million in 1997–98)—DTRS

The Road Safety Black Spot Program was implemented to reduce the number and severity of accidents at 'black spot' locations, in combination with the introduction of a package of legislative road safety measures.¹⁰² The Program is administered within the Federal Office of Road Safety. The evaluation was conducted by the Bureau of Transport and Communications Economics (within DTRS) in 1995 and involved a cost-benefit analysis of treatments implemented at a sample of 254 black spot sites from all States and Territories. The Evaluation found that as a consequence of the Program, the decrease in injury crashes at the sample sites was over two-and-a-half times what could have been expected on the basis of general comparable crash trends in various jurisdictions over the relevant period. Fatalities fell by one-third, people hospitalised by two-thirds, and the number in need of medical treatment by one-half. Using quantitative measurement techniques, the evaluation found that Black Spot projects had an overall net present value (in 1992 dollars) of the \$791.8 million and a benefit-cost ratio of 3.9.¹⁰³ This evaluation report won the Australasian Evaluation Society's 1997 Award for Best Public Sector Evaluation.

ANAO Comment

The evaluation demonstrated the value of clear, measurable objectives and quantitative evaluation techniques in succinctly documenting how the program has achieved these objectives. More importantly, the results and criteria for the evaluation were incorporated into the design and performance indicators for the next phase of the Black Spot Program so that the future results could be measured and compared with the earlier results.

2.111 The JCPA recommended that SPPs should be

*formally evaluated by the Commonwealth at least every three to five years. SPPs with a Commonwealth contribution of more than \$1 billion per annum should be evaluated at least every three years.*¹⁰⁴

The survey responses indicate that 19.7 per cent of all SPPs surveyed have been in existence for more than three years and have never been evaluated. The ANAO notes that the Hospital Funding/Base Medicare SPP, valued at some \$4.1 billion, has never been evaluated since the agreement was made more than three years ago. Table 15 illustrates the full list of SPPs in existence since 1995 but have never been evaluated.

¹⁰² *Op. cit.*, Bureau of Transport and Communications Economics (1995), p. iii.

¹⁰³ *Ibid.*, p. xix.

¹⁰⁴ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 65.

Table 15**SPPs greater than three years old but never evaluated**

Responsible Agency	SPPs that commenced on or before 1995 but never evaluated	Date program commenced	Value (\$M) (1997–98)
DTRS	ACT Assistance for Water and Sewerage ^(a)	1988	7.9
DTRS	ACT National Capital Influences on the cost of providing Municipal Services ^(a)	1988	19.6
Health	Broadbanded Health Program Grants—Transfer of Pathology Laboratories	1989	32.9
FACS	Compensation for Extension of Fringe Benefits to Pensioners ^(a)	1991	145.1
Treasury	Compensation—Companies Regulation ^(a)	1991	132.6
DVA	Transfer of Repatriation General Hospitals ^(a)	1992	6.0
Health	Health Program Grants—Magnetic Resonance Imaging	1993	19.6
Health	Other Medicare—Palliative Care ^{(b)(c)}	1993	} 924.2
Health	Other Medicare—AIDS Hospital Treatment ^{(b)(c)}	1993	
Health	Public Hospitals—Bonus Payments ^{(b)(c)}	1993	
Health	Public Hospitals—Base Funding ^(c)	1993	4 100.0
Health	Broadbanded Health Program Grants—Artificial Limbs Scheme	1993	13.2
AFFA	Sugar Industry Infrastructure	1993	2.8
DoEH	Queensland Sugar Coast Environment Rescue Package ^(d)	1995	2.0
8 agencies	Total		\$5 405.9

(a) Program objectives are primarily to provide untied grants to the States, Territories or local government. Consequently, evaluation would not normally be a high priority for these SPPs.

(b) These programs form part of the Other Medicare Program which has a total value of \$924.2 million.

(c) Although the current survey did not examine all SPPs under the Medicare Agreement, the Medicare Agreement has not been evaluated.

(d) While not formally evaluated DoEH has indicated that this program was subject to monitoring and assessment by Environment Australia. In June 1998 the Qld Department of Environment's Internal Audit unit completed a financial audit of land acquisitions made under the program. The audit found, *inter alia*, that the funds had been properly spent in connection with the scope of the work as set down in the Agreement between the Commonwealth and the State. A more wide ranging Commonwealth review is currently being considered by DoEH.

2.112 JCPA Report 342 indicated that, since the late 1980s, the Commonwealth has had a service-wide internal evaluation strategy requiring programs to be evaluated every three to five years, in conjunction with the development of agency evaluation plans for internal use and indications of all evaluation activities planned or taking place within agencies. However, a new approach is currently being implemented that will devolve full responsibility for program evaluation to Chief Executive Officers of agencies within the broad APS performance management framework. DOFA will now have no significant oversight or facilitation

role in program evaluation. The concern was that too much attention was being given to the ‘form’ rather than the ‘substance’ of evaluation—that is, insufficient attention was being given to using evaluation as a means of taking stock of the strengths and weaknesses of program administration and putting in place more cost effective measures as required. The ANAO notes that this conclusion is supported by the survey findings. While there were some notable exceptions, a correlation of key questions did not reveal to what extent SPP program managers were taking advantage of the findings from program evaluations and implementing administrative improvements.

2.113 The ANAO considers that the devolved approach is consistent with the concept of ‘letting the managers manage’ and the provisions of the *Financial Management and Accountability Act 1997*. Audit Report No 3 1997–98 *Program Evaluation in the Australian Public Service* noted the sound principles that have been developed by individual agencies such as the former DHFS in consultation with DOFA. However, it is very important that program evaluation is integral to the program administration cycle and that it provides objective assessment of improvements to program design and implementation. Case Study 3 illustrates the value of evaluation within this context.

Case Study 3

Rural Adjustment Scheme (\$98.7 million in 1997–98)—AFFA

The major objective of the Rural Adjustment Scheme (RAS) Program was ‘to foster the development of a more profitable farm sector that is able to operate competitively in a deregulated financial and market environment, and to improve the competitiveness of the farm sector in a sustainable manner on both a national and regional basis’.¹⁰⁵

A mid-term evaluation of RAS conducted in May 1997 discussed the tensions between flexibility in program design (so as to respond appropriately to different regional needs) and a focus on national outcomes. The evaluation found, *inter alia*, that more effective program delivery and achievement of outcomes could have been assured if key elements of program delivery were more clearly defined and nationally consistent. These could have included clearer objectives, more clearly defined program outcomes, performance indicators and performance monitoring arrangements, definitions of target groups, clearer specification of the range of measures for which assistance was available and, for equity reasons, a transparent appeals process. As a result of the evaluation, a new program—‘Agriculture Advancing Australia’ replaced RAS in June 1998. The new scheme has been designed to have a greater focus on outcomes measurement.

ANAO Comment

This evaluation was a good illustration of how the absence of performance information and measurable objectives can undermine the accountability of a program. RAS is a good contrast with the Black Spot Program where performance information was built into the latter program design from the outset. It also highlights the risks to program outcomes if program management is overly directed towards responding to urgent day to day pressures as opposed to the primary purposes of the program.

¹⁰⁵ Rural Adjustment Scheme Advisory Council (1997) *Annual Report 1996–97: including RAS Annual Report 1996–97*, AFFA, p. 13.

2.114 The 1997–98 survey of SPPs identified that SPP evaluations focussed largely on performance monitoring, review and reporting to the Parliament of the SPP (78.4 per cent). Evaluations undertaken examined less frequently the issues of cash management (40.5 per cent), risk management (37.8 per cent) and alternate delivery models (35.1 per cent), that is, program delivery other than through the SPP. Table 16 outlines the types of issues examined in evaluations.

Table 16

Survey responses on issues included in evaluations^(a)

Issues included in the last evaluation (Multiple responses)	Percentage of evaluated SPPs that included these factors in 1997–98
Performance monitoring, review and reporting of the SPP	78.4
Roles and responsibilities of Commonwealth and other parties to the agreement	75.7
Financial monitoring, review and reporting of the SPP	73.0
Client focus for the SPP	70.3
Appropriateness of SPP objectives in relation to government policy	64.9
The outcomes focus of the SPP	64.9
Adequacy of performance indicators, targets and milestones	58.3
Targeting and prioritising the allocation of funds to stakeholders of the SPP	51.4
Incentives and sanctions	45.9
Efficiency and/or cost effectiveness of the SPP administration	43.2
Cash management	40.5
Management of risks (e.g. fraud, cost shifting)	37.8
Alternative delivery models (e.g. other than through an SPP)	35.1

(a) Percentages do not total 100 per cent as agencies provided multiple responses.

2.115 A key consideration in the evaluation of programs associated with SPPs is that the Commonwealth is rarely the only funding provider and in most cases provides less than half of total funding to meet client needs. This suggests that a collaborative approach between the Commonwealth, States, Territories and other funding providers and clients often may be the most appropriate approach to obtain the best value for money outcomes and commitment for improvements from the evaluation. Case Study 4 is a good example of one program area that adopted this approach.

Case Study 4

Disability Services (\$316.9 million in 1997–98)—former DHFS

The Disability Services SPP is one component of the much larger Commonwealth-State Disability Agreement (CSDA), which is valued at some \$1.4 billion annually. The CSDA is an arrangement between State, Territory and Commonwealth governments, which covers the funding and administration of employment, accommodation and other support services for people with disabilities.¹⁰⁶

In 1996 the CSDA evaluation was overseen by a group of Commonwealth/State officials responsible for administering disability services and/or funding. The purpose of the evaluation was to indicate the effectiveness and efficiency of the CSDA, report to Ministers on the outcomes of the CSDA; and provide information as a basis for setting strategic directions for the provision of disability services in the future. The evaluation provided the first reliable national figures on the extent of unmet need in disability services. While noting progress in areas such as needs-based planning, performance-based funding and quality standards, it also highlighted inequities, inconsistencies and duplication of effort between the Commonwealth and the States in the administration of disability services. In particular, it highlighted as one of the major shortcomings of the first agreement, a lack of publicly available information on expenditure and performance under the CSDA. To address this, the evaluation report recommended the development of, and joint reporting against, nationally agreed performance targets. The report also noted that it was critical to develop comparable data collections for planning and accountability purposes. Overall, the evaluation indicated the program should move to a stronger partnership among governments in the development of a national approach to disability services.

ANAO Comment

This evaluation demonstrates how collaborative reviews involving the Commonwealth, the States and other service providers can identify how well the program is targeting its resources and meeting client needs. The ANAO notes that publicly available information on expenditure and performance is being incorporated into the new Agreement as part of regular national reporting on performance outcomes. This will be linked to the performance measurement and reporting through the Steering Committee for the Review of Commonwealth/State Service Provision. The ANAO supports this type of approach as it provides a strong incentive for improvements in the measurement of performance over time.

Reporting to the Parliament

2.116 As noted in the Program Design section of this report, the *Financial Management and Accountability Act 1997* requires that agency heads manage the affairs of the agency in a way that promotes efficient, effective and ethical use of Commonwealth resources. The Guidelines for Annual Reports to the Parliament outline the mechanism for reporting to the Parliament over the use of Commonwealth resources by agency heads. The Guidelines were endorsed by the then JCPA under sub-section 25 (7) of the *Public Service Act 1922* in March 1994. These were subsequently updated

¹⁰⁶ Yeatman, A. (1996) *The Final Report of the Review of the Commonwealth/State Disability Agreement*, AGPS, Canberra.

in April 1998. The program performance reporting section of the Guidelines notes that the focus is to be on:

*program performance, the achievement of program objectives and results. It should be a balanced and candid account of both successes and shortcomings. Information should be sufficient to enable the Parliament to make informed judgements on departmental performance.*¹⁰⁷

2.117 ANAO Audit Reports No.6 1993–94, and No.21 1994–95, highlighted a range of core elements that should be included in reports to the Parliament if the reporting guidelines are to be fully addressed. These were:

- program goals, performance targets and strategies adopted to achieve them;
- actual achievements against program goals and targets;
- constraints or limiting factors on achievement of goals;
- budgeted and actual resources utilised during the period;
- workload analysis and trends;
- results of any major reviews, consultancies, audits or evaluations;
- instances of non-compliance with the conditions of the agreement;
- significant amendments to the agreement since the previous report; and
- legislative and other changes likely to affect the future operation of the program.¹⁰⁸

2.118 JCPA Report 342 has also emphasised the need for greater accountability through reporting requirements to Parliament, particularly in relation to:

- a) *SPP objectives and associated performance indicators;*
- b) *performance towards objectives during the reporting period; and*
- c) *the use of any sanctions for failure to meet performance targets or non-compliance with the terms of SPP agreements.*¹⁰⁹

2.119 In 1998, the JCPAA Report 362 endorsed these principles and noted that:

the accountability of Commonwealth departments and other parties to SPP agreements for the use of SPP funds and the performance of SPP programs

¹⁰⁷ Department of the Prime Minister and Cabinet (and approved by the JCPAA) (1998) *Requirements for Departmental Annual Reports*, p. 5. The ANAO notes that as part of the introduction of Accrual Budgeting, the Annual Reporting Guidelines will be adjusted to reflect an outputs and outcomes focus in 1999–2000. The detail of these amendments has yet to be determined.

¹⁰⁸ *Op. cit.*, ANAO (1994; 1995).

¹⁰⁹ *Op. cit.*, Joint Committee of Public Accounts (1995) p. xvii.

*is enhanced by the ready access of the Parliament and the public to reliable and up to date information about SPP programs and their performance results.*¹¹⁰

2.120 Table 17 provides a list of the elements included in the most recent reports to Parliament (this includes annual reports, Portfolio Budget Statements and other separate reports), as well as elements that SPP managers considered relevant but did not include in these reports. It also compares results between the 1994–95 Survey and the current survey.

Table 17

Survey responses on items included in relevant reports by agencies to the Parliament^(a)

Item (Multiple responses)	1994–95		1997–98	
	Per cent included but not included	Per cent relevant	Per cent included	Per cent relevant but not included
Program goals, performance targets and strategies adopted to achieve them	50.6	17.3	53.6	2.9
Actual achievements against goals and targets	44.4	25.9	44.9	5.8
Constraints or limiting factors on achievement of goals	25.9	12.3	31.9	7.2
Budgeted and actual resources utilised during the period	81.5	3.7	72.3	3.1
Workload analysis and trends	4.9	12.3	13.0	11.6
Results of any major reviews, consultancies, audits or evaluations	23.5	12.3	27.5	2.9
Instances of significant non-compliance with the conditions of the agreement	4.9	14.8	8.7	5.8
Amendments to the agreement since the previous report	7.4	6.2	10.1	5.8
Legislation and other changes likely to affect future operation of the program	19.8	6.2	26.1	1.4

(a) Percentages do not total 100 per cent as agencies provided multiple responses.

2.121 Overall, Table 17 indicates that a slightly greater percentage of information elements are now included in reports to Parliament than was the case documented in the 1994–95 Survey. The survey also found that agencies consider that they were more likely to include relevant information elements in reports to Parliament than in the past. However, while acknowledging the progress that SPP managers have made towards improving accountability for the management of SPPs, the ANAO considers

¹¹⁰ *Op. cit.*, Joint Committee of Public Accounts and Audit, p. 49.

that there is still scope for substantial improvement—particularly in terms of reporting significant non-compliance with the conditions of the agreement. In particular, the ANAO considers that reporting should be significantly improved in:

- instances of significant non-compliance with the conditions of the agreement;
- amendments to the agreement since the previous report; and
- work load analysis and trends.

Evaluating and reporting performance conclusions

2.122 Evaluation is a critical and strategic tool used for measuring and/or assessing program performance. Evaluation of SPPs and reporting to the Parliament were recognised as important elements of accountability by the JCPAA. The ANAO survey has found that only 20 per cent of those SPPs surveyed (and that have been in existence for more than three years) have not been evaluated since the 1994–95 Survey. However, they represent some 30 per cent of the value (\$5.4 billion) of SPPs surveyed. Where evaluations had been conducted, the ANAO survey indicated they included an appropriate range of issues but greater consideration may need to be given to factors such as risk management and alternative delivery models in the future. Some of the key lessons learned from the ANAO analysis of program evaluations examined during the course of the audit were that quality evaluations can provide:

- the basis for establishing a quality performance information and monitoring regime;
- a focus on the measurement of results and the quantification or assessment of outputs and outcomes;
- a mechanism for establishing common ground and a common basis for collective action (including information sharing) amongst governments, service providers and/or partners; and
- a firm basis for redesigning programs to maximise value for money from the future allocation of public funds.

2.123 However, the survey indicated that SPP program managers were not taking full advantage of the findings from program evaluations and implementing administrative improvements.

2.124 In relation to reporting to the Parliament, the ANAO survey found that reporting SPP performance has marginally improved since the 1994-95 Survey. While the progress that agencies have made towards improving accountability for the management of SPPs is acknowledged, the ANAO

considers that greater attention should be given to public reporting, particularly in terms of reporting instances of significant non-compliance with the conditions of SPP agreements. The ANAO notes that, under the Accrual Budgeting Framework, agencies will be expected to report achievement against intended outputs and outcomes. This should assist agencies to better account to Parliament and fully meet the requirements of the *Financial Management and Accountability Act 1997*. Section 44 of the Act requires that the

Chief Executive must manage the affairs of the Agency in a way that promotes the efficient, effective and ethical use of the Commonwealth resources for which the Chief Executive is responsible.

Recommendation No.3

2.125 The ANAO *recommends* that agencies ensure that well structured and conducted program evaluations commensurate with the materiality of the SPP concerned and the costs and benefits involved:

- a) are undertaken prior to the renegotiation of new agreements or at least every five years for SPPs without sunset clauses (where they have not been covered or subsumed within any other reviews);
- b) involve the States, Territories and/or other parties to agreements in the planning and management of the evaluation process; and
- c) include as key elements, issues such as: to what extent the program has achieved its outcomes; the adequacy of performance indicators, targets and milestones; how cost effective the program is; and how well risks to the achievement of identified outputs/outcomes have been managed.

Agencies responses

2.126 All key agencies agreed with this recommendation except Treasury which did not comment.

Recommendation No.4

2.127 The ANAO *recommends* that, consistent with the annual reporting requirements and as appropriate to the circumstances and scale of each SPP, Commonwealth agencies, where they are not already doing so, ensure that the following information is reported to Parliament:

- a) program goals (or intended outputs/outcomes), performance targets and strategies adopted to achieve them;
- b) actual achievements against program goals (or intended outputs/outcomes) and targets;

- c) constraints or limiting factors on achievement of goals;
- d) budgeted and actual resources utilised during the period;
- e) workload analysis and trends;
- f) results of any major reviews, consultancies, audits or evaluations;
- g) significant instances of non-compliance with the conditions of the agreement;
- h) significant amendments to the agreement since the previous report and their impacts; and
- i) legislative and other changes likely to affect the future operation of the program.

Agencies responses

2.128 All key agencies agreed with this recommendation except for A-Gs and Health which both agreed with qualification, and Treasury which did not comment. A-Gs does not consider that the recommendation is consistent with the consolidated style of the Department's annual report. Health indicated that it was unsure as to what was covered by part (e) and made the point that amendments under part (h) should only be reported if they involve changing the resources of the agreement or the changes are likely to effect the achievement of outcomes. The ANAO considers that workload analysis and trends should be self evident for agencies familiar with costing inputs on an accrual basis. On Health's second point, the ANAO agrees that only significant changes to resources or likely impacts on outcomes need to be reported.

Incentives and Sanctions

2.129 Incentives and sanctions are a common design feature of Commonwealth SPP agreements. They can be used to encourage timely or optimum performance standards, enforce compliance with terms and conditions of agreements as well as encourage better practice amongst service providers. Audit Report No.6 1993–94 noted that:

..greater use could be made of incentives within agreements to achieve improvements, notably for the identification, measurement and sharing of program savings. A broader range of sanctions is required to more effectively deal with instances of non-compliance with the terms of agreements.¹¹¹

¹¹¹ *Op. cit.*, ANAO (1993), p. viii.

2.130 However, as noted by DOFA, reporting on outputs and outcomes requires a performance culture of clarity and trust rather than one of blame.¹¹² DOFA noted that where there is a ‘blame culture’ or unclear expectations, parties are more prepared to report on information which is more measurable but which may be less useful to the improvement of public policy. When a ‘no blame culture’ is established and reporting is used to understand whether the strategies and actions are the right ones, parties are more willing to be held accountable for their actions and performance.

2.131 The ANAO notes that the then JCPA recognised that SPP agreements need incentives and sanctions to encourage compliance with the terms of SPP agreements and to meet SPP objectives, but that it was reluctant to support application of sanctions where performance targets were not met:

*The use of sanctions in such situations is a blunt management tool for achieving objectives and it places the Commonwealth in the role of enforcer, which is likely to give rise to hostility between the parties involved.*¹¹³

2.132 The JCPA considered that it was more appropriate to structure SPPs to focus on incentives for achieving performance targets, rather than on sanctions for non-compliance.¹¹⁴ The JCPAA in its most recent report on SPPs reiterated these views on incentives and sanctions.¹¹⁵

The design of incentives and sanctions

2.133 The 1997–98 survey results indicate that 16.9 per cent (12 SPPs) were considered by agencies to have no incentives and sanctions in place. This represents a 4.9 percentage point increase in the number of SPPs that had no incentives and sanctions available to them in 1994–95. However, the survey results indicate that where incentives and sanctions are available, SPP managers have a wider array of incentives and sanctions available to them since the 1994–95 Survey. For example, there was a 14.3 percentage point increase in the number of SPP agreements that specifically cater for tabling a report in the Commonwealth Parliament in the event of SPP non-compliance or substandard performance. Table 18 summarises the availability of each incentive and sanction in 1997–98 and compares this to the results of the 1994–95 Survey.

¹¹² *Op. cit.*, Department of Finance and Administration (1998).

¹¹³ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 61.

¹¹⁴ *Ibid.*, p. 61.

¹¹⁵ *Op. cit.*, Joint Committee of Public Accounts and Audit (1998), pp. 47–48.

Table 18**Survey responses on available incentives and sanctions^(a)**

Incentive/Sanction (Multiple responses)		Per cent of SPPs in 1997–98 Survey	Percentage point change from 1994–95 +/-
I n c e n t i v e s	Bring forward payments where program interests are being achieved	8.5	not surveyed in 1994–95
	SPP recipients retain part of all of savings achieved	6.8	not surveyed in 1994–95
	SPP recipients receive remaining funds when they provide outputs or achieve outcomes	20.3	not surveyed in 1994–95
S a n c t i o n s	Report to the Commonwealth Parliament	25.4	+14.3
	Bring to the attention of the Ministers	71.2	+11.9
	Delaying payments of funds or withdrawing future funding allocations	79.7	-6.7
	Repayment of allocated funds	37.6	+8.2
	Imposition of a financial penalty	11.9	+7.0
	Commonwealth Ministers determine where SPP recipients direct SPP funding	27.1	+26.0
	Termination of SPP	33.9	+31.7
	Other	6.8	-1.8

(a) Percentages based on SPPs with at least one incentive/sanction available. Percentages do not total 100 per cent as agencies provided multiple responses.

The Application and Effectiveness of Incentives and Sanctions

2.134 The application of sanctions is clearly a serious matter and one not to be taken lightly. Generally, agencies assess the extent to which a given situation warrants the application of incentives or sanctions. However, in many cases the final decision to apply incentives and sanctions rests with the responsible Commonwealth Minister(s) following recommendations from Commonwealth agencies.

Incentives

2.135 In its report of 1995, the then JCPA considered that

*it was more appropriate to structure SPPs to focus on incentives for achieving performance targets, rather than sanctions for non-compliance.*¹¹⁶

The ANAO found that, overall, agencies have incorporated incentives (such as bringing forward payments to the States/Territories where program interests are being achieved) into only 29.6 per cent of relevant SPPs (that is, SPPs that have either been renewed, had the opportunity to be renewed or have commenced since the tabling of the JCPA's report).

¹¹⁶ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 61.

2.136 The ANAO has calculated that, on the whole, the various categories of incentives were applied on 70.6 per cent of occasions where they could have been applied. However, agencies considered that when applied, incentives were three times more effective than not in improving SPP compliance or performance.¹¹⁷ Table 19 below summarises the application and effectiveness of available incentives.

Table 19

Survey responses on the application and effectiveness of incentives and sanctions

Incentive/Sanction (Multiple responses)		No. of SPPs where incentive/sanction could have been applied: 1997–98	Per cent of SPPs ^(a) that:	
			applied the incentive/ sanction ^(b) : 1997–98	rated the incentive/ sanction as highly or moderately effective ^(c) : 1997–98
I n c e n t i v e s	Bring forward payments where program interests are being achieved	5	80.0	100.0
	SPP recipients retain part of all of savings achieved	4	75.0	66.7
	SPP recipients receive remaining funds when they provide outputs or achieve outcomes	8	62.5	60.0
S a n c t i o n s	Report to the Commonwealth Parliament	10	30.0 ^(d)	100.0
	Bring to the attention of the Ministers	29	65.5 ^(d)	89.5 ^(e)
	Delaying payments of funds	33	72.7	70.8 ^(e)
	Withdrawing future funding allocations	24	20.8 ^(d)	40.0
	Repayment of allocated funds	27	55.5 ^(d)	66.7
	Imposition of a financial penalty	4	25.0 ^(d)	0.0 ^(e)
	Commonwealth Ministers determine where SPP recipients direct SPP funding	15	66.7 ^(d)	80.0
	Termination of SPP	10	10.0	100.0
	Other	2	100.0	100.0

(a) Percentages do not total 100 per cent as agencies provided multiple responses.

(b) Percentage of those SPPs that had the opportunity to apply the incentive or sanction.

(c) Percentage of those SPPs that used the incentive or sanction.

(d) Excludes one SPP which did not indicate whether incentives and sanctions were applied.

(e) Excludes one SPP which did not rate the effectiveness of the incentives and sanctions applied.

¹¹⁷ Because of the small number of SPPs where incentives have been applied, the ANAO considers that care should be taken when comparing this to the application and effectiveness of sanctions

Sanctions

2.137 Agencies indicated that situations arose in the past two years where the sanctions could have been applied in relation to 66.1 per cent of SPPs with incentives and sanctions.¹¹⁸ This represents a 24.1 percentage point increase in the number of SPPs in similar circumstances in the 1994–95 Survey. The ANAO considers that the substantial increase over time reflects a combination of factors such as:

- an increase in SPP non-compliance and non-performance by the States and Territories;
- a stricter interpretation of SPP compliance or performance requirements by the Commonwealth; and
- the wider array of sanctions that more agencies have made available to them.

2.138 The ANAO found that, overall, at least one sanction had been applied in the past two years in relation to 82.1 per cent of SPPs where the sanctions could have been applied. This represents a 43.6 percentage point increase in the application of sanctions in the two years prior to the 1994–95 Survey.

2.139 The ANAO has calculated that, on the whole, the various categories of sanctions were applied on 54.5 per cent of occasions where they could have been applied. However, agencies considered that when applied, sanctions were three and a half times more effective than not in improving SPP compliance or performance. In fact, agencies administering all but one SPP considered that at least one sanction that was applied was moderately or highly effective. Table 19 above summarises the application and effectiveness of each incentive and sanction.

Circumstances where incentives and sanctions have been applied

2.140 The ANAO examined the types of circumstances in which incentives and sanctions have been applied in the past two years and found that incentives and sanctions have been applied in:

- ‘input control’ situations (for example, unsatisfactory SPP funds management; overdue financial acquittals; and overdue data returns from the States/Territories) in over three-quarters of SPPs;
- ‘program performance’ situations (for example, failure to achieve SPP

¹¹⁸ Anecdotal evidence suggests that the actual percentage of SPPs where sanctions could have been applied is higher than agencies indicated in the survey.

- objectives; failure to meet agreed performance targets and milestones; and failure to deliver SPP outputs) in only 37.9 per cent of SPPs,¹¹⁹ and
- other situations (primarily ‘not meeting the conditions of contract’) in 18.2 per cent of SPPs.

2.141 This result would appear to suggest that the administrative focus of most agencies is still primarily on the management of inputs by the States and Territories rather than the achievement of results. In 1995, the then JCPA considered that it was more appropriate to structure SPPs to focus on incentives for achieving performance targets and made a recommendation to this effect. The implementation of this recommendation was examined by the ANAO and is summarised at Table 21.

Reasons for not applying sanctions

2.142 In total, agencies administering only 30.8 per cent of SPPs applied sanctions in all situations where they could have been applied. Table 20 summarises the reasons cited by agencies as to why sanctions were not applied.

Table 20

Survey responses on reasons for not applying sanctions

Reason for not applying sanction (Multiple responses)	No. of SPPs where sanction not applied	Percentage of SPPs that did not apply sanction where they could have been ^(a)
States/Territories or other parties to the SPP Agreement given extra time to comply with the SPP Agreement or improve performance	18	69.2
Existing dispute mechanisms were adequate to resolve differences	12	46.2
Adverse impact on Commonwealth-State relations	11	42.3
Community, clients or other stakeholders could have been adversely impacted	8	30.8
Minister(s) did not support the application of sanctions	3	11.5
Other	1	3.8

(a) Percentages do not total 100 per cent as agencies provided multiple responses.

2.143 Table 20 illustrates that the Commonwealth was most likely to give the States and Territories extra time to comply or improve performance (69.2 per cent of SPPs where sanctions could have been applied) or use existing dispute mechanisms to resolve the situation (46.2 per cent) where

¹¹⁹ SPPs that have little or no performance information requirements (see paragraph 1.8) have been excluded here.

sanctions were not applied. Of particular note is agencies' views that applying sanctions in some circumstances would have adversely impacted on community, clients, other stakeholders (30.8 per cent), or Commonwealth/State relations (42.3 per cent).

2.144 Health has also indicated that in withholding funding to a State or Territory as a sanction for not meeting the terms of an SPP, consideration needs to be given to the treatment of those funds by the Commonwealth Grants Commission. The Commonwealth Grants Commission has indicated that, unless specifically quarantined from consideration, the Commission may, under some circumstances, offset the reduction in SPP funding by increasing the General Revenue Assistance to an affected State or Territory over time.

The future for incentives and sanctions

2.145 The ANAO recognises that applying sanctions can be difficult where the Commonwealth relies on the States' administrative contributions (and in most cases, substantial financial contributions) to implement the programs (for example, Public Hospitals, Housing and Schools). Any proposed sanction involving delaying or withdrawing SPP funding to the States and Territories could have an adverse 'flow-on' impact on SPP clients and other stakeholders—particularly vulnerable social groups (including the sick, disabled, elderly and financially disadvantaged). This issue was of particular concern to the former DHFS and DTRS at the time of the 1994–95 Survey. However, the reluctance of the Commonwealth to impose appropriate sanctions for persistent non-compliance or non-performance may create a view at the State level, if not already accepted, that the Commonwealth overlooks non-compliance.

2.146 In two previous audits, the ANAO recommended that part of the solution may be to introduce a graduated range of sanctions which escalate with the severity of the circumstances.¹²⁰ The JCPAA too, in 1995 and 1998 considered that SPP Agreements should detail graduated sanctions for non-compliance, as well as specify incentives for good program management and the achievement of agreed outcomes.¹²¹ Of the 32 SPPs that applied sanctions in the last two years, only 53.1 per cent applied a *graduated* range of sanctions.¹²² Although a substantial improvement from 1994–95 (18.5 per cent), SPP agreements for the remaining 46.9 per cent of SPPs still did not cater for a graduated range of sanctions. Table 21 summarises the

¹²⁰ *Op. cit.*, ANAO (1993) p. 16; and *Op. cit.*, ANAO (1995) p. 30.

¹²¹ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 27; and *Op. cit.*, Joint Committee of Public Accounts and Audit (1998) p. 48.

¹²² One SPP that did not provide a response has been excluded.

implementation of JCPA recommendation on incentives. The ANAO considers that all future SPP agreements should include a range of incentives and appropriate graduated sanctions which are tied to the achievement of SPP goals, performance targets and milestones.

Table 21

Implementation of JCPA Report 342 recommendation on incentives^(a)

Agency	JCPA Report 342 Recommendation 11(a): SPP Agreements should specify incentives for good program management and the achievement of agreed outcomes	
	IMPLEMENTED No. (per cent) of agency SPPs	NOT IMPLEMENTED No. (per cent) of agency SPPs
former DHFS	11 (54.5%)	9 (45.5%) ^(b)
DETYA	5 (50.0%)	5 (50.0%)
DoEH	2 (100.0%)	nil
DISR	2 (66.7%)	1 (33.3%)
DTRS	2 (50.0%)	2 (50.0%)
FACS	1 (20.0%)	4 (80.0%)
AFFA	1 (12.5%)	7 (87.5%) ^(c)
A-Gs	1 (100.0%)	nil
DOFA	1 (100.0%)	nil
DOCITA	1 (100.0%)	nil
HREOC	nil	1 (100.0%)
Total	27 (46.6%)	29 (50.0%)

(a) The thirteen SPPs with little or no performance information requirement have been excluded from this table. In addition, two SPP responses are missing.

(b) Includes two SPPs that have not had the opportunity to be renegotiated since JCPA Report 342 was published.

(c) Includes three SPPs that have not had the opportunity to be renegotiated since JCPA Report 342 was published.

2.147 Another option that agencies may wish to consider the merits of restructuring their larger SPPs into separate funding pools—one pool which provides for some ‘guaranteed’ base level of funding and another pool that provides ‘bonus’ funding to the States/Territories on the submission of performance data and/or achievement of agreed performance targets and milestones.¹²³ The former DHFS indicated that such an arrangement was difficult and complex to establish in the Public Hospital SPP, but yielded some positive results. The ANAO considers that DTRS may find this option useful within the context of the National Highways and Roads of National Importance Programs.

¹²³ The payment or otherwise of such ‘bonus’ funding would need to be quarantined from consideration by the Commonwealth Grants Commission.

Incentives and sanctions conclusions

2.148 Incentives and sanctions are important mechanisms for encouraging compliance with the terms and conditions of SPP agreements and, specifically, to meet SPP objectives. Sanctions are however, usually a last resort option when negotiations have failed. On comparing the 1994–95 Survey results to the current survey, the ANAO found a 24 percentage point increase in situations where agencies considered that sanctions could have been applied. Overall, agencies were about twice more willing to apply the various incentives available than apply the sanctions available. Where agencies applied incentives and sanctions, they considered that they were effective at improving SPP performance or compliance. However, the Commonwealth is generally, and often understandably, reluctant to apply sanctions—particularly in circumstances that would adversely impact on the community, particular clients, other stakeholders or on Commonwealth-State relations generally.

2.149 The JCPA in 1995 and the ANAO in two earlier audits suggested that part of the solution may be for agencies to introduce a graduated range of sanctions which escalate with the severity of the circumstances.¹²⁴ Although this approach has been implemented for the majority of relevant SPPs, 47 per cent of relevant SPPs (that have applied sanctions in the last two years) have not.

2.150 While recognising that SPP agreements are ultimately the responsibility of Ministers, the ANAO considers that there would be merit in agencies considering a wider array of incentives when advising on, and negotiating SPP agreements. The then JCPA in 1995 recommended that SPPs focus on incentives for achieving performance targets rather than sanctions for non-compliance. However, the ANAO found that only some 30 per cent of relevant SPPs (that is SPPs that have either been renewed, had the opportunity of being renewed or commenced since the tabling of the JCPA's report) have done so. In particular, there would appear to be scope for increased consideration and application of financial incentives such as accelerated payments, and the sharing of at least part of any identified savings and, for larger SPPs, variations on the 'bonus' funding pool concept introduced by the former DHFS for Public Hospitals funding (where incentives are linked to the provision of performance data and/or achievement of performance targets and milestones).

¹²⁴ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 63; *Op. cit.*, ANAO (1993), p. 16; and *Op. cit.*, ANAO (1995), p. 30.

Recommendation 5

2.151 The ANAO *recommends* that in future SPP Agreements, agencies:

- a) consider and advise on a range of incentives and appropriate graduated sanctions which are directly tied to the achievement of SPP goals, performance targets and milestones; and
- b) consider the scope for inclusion of financial incentives such as bringing forward SPP funding where program interests are being achieved, the retention of at least part of any identified savings and variations on the 'bonus' pool concept introduced for Public Hospital funding in the former DHFS so as to provide a stronger incentive for the timely receipt of performance data and/or achievement of agreed performance targets and milestones.

Agencies' responses

2.152 All key agencies agreed with this recommendation except for DOCITA which agreed with qualification, and Treasury which did not comment. The DOCITA qualification relates to circumstances where incentives may not be appropriate, for example, where there is a decision by Government to provide specified funding levels or for small payments where the costs of administering incentive regimes would outweigh the benefits. However, DOCITA notes that SPPs administered by them often include incentives such as withholding payment until agreed progress has been attained. The ANAO agrees that in the circumstances described by DOCITA, the ANAO would not expect agencies to apply this recommendation.

3. Financial Management and Accountability

This chapter examines some of the key financial elements of SPPs, including funding acquittals, cash management and Commonwealth administrative costs. While the majority of funding across all agencies has been acquitted, the ANAO considers that more could be done to ensure compliance with Commonwealth financial requirements. Further improvements and cost savings can be achieved through cash management. Although the overall cost of administering SPPs is some \$68.8 million per annum (involving over 550 full-time equivalent staff) this represents some one third of one per cent of total annual SPP payments. The ANAO found a significant correlation between the cost of administering SPPs and the amount of SPP funding and whether SPPs have performance indicators measuring efficiency. The regression results suggest that further SPP administrative cost savings can be achieved by developing appropriate SPP performance indicators that fully measure efficiency.

Introduction

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

- the introduction of the *Financial Management and Accountability Act 1997* which sets down the financial, regulatory, accountability and accounting framework for Commonwealth agencies;
- the planned introduction of the Accrual Budgeting Framework in 1999–2000 that, *inter alia*, will identify and fully cost outputs;
- a review of cash management commissioned by the then Government (that is, the *Report on Cash Management Issues Concerning Commonwealth Payments to Statutory Authorities and SPPs to the States*) following the 1995–96 Budget; and
- reviews of financial accountability by Parliamentary Committees (for example, JCPA Report 342 *The Administration of SPPs: A Focus on Outcomes*) and the ANAO (that is, Audit Report No.10 1994–95 *Cash Management in Commonwealth Government Departments* and Audit Report No.36 1996–97 *Commonwealth Natural Resource Management and Environment Programs*).

3.2 The key elements of financial accountability in relation to SPPs examined by the ANAO are:

- funding acquittals;
- cash management; and
- Commonwealth funded administrative costs.

SPP funding acquittals

Principles

3.3 In its report into the Administration of SPPs, the then JCPA said that

*as a first principle, the Committee believes that is fundamental for the Commonwealth to be assured SPP funds are spent on the basis on which they were allocated.*¹²⁵

Funding acquittals, submitted by the States and Territories to the Commonwealth on at least an annual basis, can provide this assurance.

3.4 The importance of funding acquittals has been highlighted in the ANAO Better Practice Guide for the Administration of Grants which states that:

*reliable, timely and accurate evidence is required to demonstrate that grant funds have been expended in accordance with the terms and conditions of the grant agreement. Administrative procedures to acquit grants on a regular basis are an important management control. The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance.*¹²⁶

3.5 As recipients of Commonwealth SPP funding, the States and Territories (and Universities) could be considered a relatively low inherent risk of misappropriation and fraud.¹²⁷ Nevertheless, the Commonwealth requires regular, timely assurance that the SPP funding it provides to the States and Territories is spent in accordance with the SPP agreements.

3.6 Annual acquittals of SPP funding have the added benefit of allowing the Commonwealth to determine how much SPP funding remains unspent at the end of the funding year. Such information allows the Commonwealth to better manage the frequency, timing and size of SPP payments which in turn reduces the cost of short-term borrowing by the Commonwealth (see the Cash Management section of this report).

¹²⁵ *Op. cit.*, Joint Committee of Public Accounts (1995).

¹²⁶ ANAO (1997) *Better Practice Guide for the Administration of Grants*, AGPS, Canberra, p. 28.

¹²⁷ As individuals and non-government organisations are generally more mobile and less permanent than the States and Territories, they could be considered as having a higher inherent risk of misappropriating any Commonwealth funding they receive.

Acquittal requirements

3.7 Of the 71 SPPs examined by the ANAO, acquittals were not required in relation to eleven. Funding for all but one of these SPPs is preset at the start of the funding year or formula-driven. Ten of these SPPs do not have performance data requirements and are designed primarily to compensate the States and Territories for revenue foregone or additional costs involved. The ANAO therefore considers that the acquittal of these SPPs would not provide any benefit.¹²⁸

3.8 The ANAO has found that in 1995–96 and 1996–97 agencies used a variety of acceptable methods for acquitting SPP funding. These are:

- Statements of Expenditure;
- Certificates of Expenditure;
- Disclosures in financial statements; and
- Payment on performance.

3.9 The majority of SPPs still use Statements or Certificates of Expenditure (considered synonymous by the ANAO in this report) to acquit SPP funding (100 per cent in 1988–89 and 1992–93). However, ten SPPs accounting for a third of 1996–97 SPP funding now use the Disclosure in Financial Statements method (which was the acquittal method preferred by the then JCPA).¹²⁹ Agencies administering four SPPs that have well-defined performance indicators, targets and milestones now pay the States and Territories on demonstrated performance.¹³⁰ Table 22 summarises the number and value of SPPs using the various acquittal methods.

Table 22

Methods of acquitting 1996–97 SPP funds^(a)

Acquittal Method (Multiple responses)	No. of SPPs (Per cent of SPPs)	SPP \$ (Per cent of SPP outlays)
Statements and/or Certificates of Expenditure	53 (88.3%)	\$13 033m (70.9%)
Disclosures in financial statements	10 (16.7%)	\$6 143m (33.4%)
Payment on performance	4 (6.7%)	\$79m (0.4%)

(a) As some SPPs use multiple methods to acquit SPP funds, the sum of the percentages exceeds 100 per cent.

¹²⁸ These SPPs have little or no performance information requirements. Please refer to paragraph 1.8 of this report for further explanation.

¹²⁹ *Op. cit.*, Joint Committee of Public Accounts (1995), p. 79.

¹³⁰ In some cases, in-advance payments are made and later offset against performance-based payments.

3.10 Provided performance indicators, targets and milestones have been appropriately defined and agreed by both the Commonwealth and the States and Territories, the ANAO prefers the payment on performance method to acquit SPP funding because it directly links payments to administrative efficiency and the achievement of outcomes. Where this is not possible, the ANAO considers that the Disclosure in Financial Statements method can provide a cost effective means of acquittal particularly where SPP funding constitutes a significant proportion of income for the SPP recipient (for example, Higher Education and Research at Universities SPPs). State/Territory agencies and universities are required to prepare general purpose financial statements each year and have them independently audited. Including financial information on SPP income and expenditure (where material in terms of total income of the SPP recipient) in the State/Territory agency or university financial statements would streamline the SPP acquittal process. The ANAO considers that the statements or certificates of expenditure acquittal methods¹³¹ are appropriate in the remaining situations.

When are acquittals required?

3.11 In the 1994–95 Survey, after examining 1992–93 acquittals, the ANAO recommended that, where statements and certificates of expenditure were required, these should be provided within six months of the end of the funding year. The ANAO considers that a six-month timeframe allows SPP recipients sufficient time to prepare statements and certificates of expenditure while still providing relevant and timely financial information to the Commonwealth to manage SPPs.

3.12 A comparison of results of the 1994–95 Survey with the current survey revealed some improvement—with a reduction in the number of SPPs where acquittal provision is not specified or where acquittals should be provided ‘as soon as practicable’ (down 10.5 percentage points in total). However, nine SPPs (some seventeen per cent of SPPs) valued at some \$1.4 billion in 1996–97 still do not require acquittals within six months of the end of the funding years. This includes three SPPs commenced after the 1994–95 Survey, two SPPs that have been renewed since 1994–95 and one SPP that has no sunset date. Although nearly all of 1995–96 and 1996–97 SPP funding for these six SPPs has been acquitted, the ANAO considers that, to manage better the risks to financial accountability, the States and Territories should be required to submit acquittals within six months of the end of the funding year.

¹³¹ For an explanation of these acquittal methods, refer to the Glossary.

SPP funding acquittals

3.13 The ANAO found that some 70 per cent of 1996–97 SPP funds, valued at \$12.8 billion, has been acquitted by the States and Territories in relation to 36 SPPs to date.¹³² Although the States and Territories have acquitted a greater proportion of 1995–96 funding (that is, 82.4 per cent), some \$2.9 billion (16.1 per cent) in 1995–96 funding in relation to eight SPPs had not been acquitted at the time of the audit.¹³³ At the time of the audit, acquittals for these SPPs were overdue by at least sixteen months.¹³⁴ Some 99 per cent of all unacquitted 1995–96 SPP funds are in SPPs administered by the former DHFS. Table 23 summarises the status of SPP acquittals.

Table 23
Status of Acquittals

		1995–96	1996–97
SPP funding acquitted		\$14.6 billion (82.4%)	\$12.8 billion (69.7%)
Number of SPPs:	Fully acquitted	40 (81.6%)	27 (50.9%)
	Partially acquitted	7 (14.3%)	9 (17.0%)
	Not acquitted	2 (4.1%)	17 (32.1%)
Acquittals in progress ^(a)		\$0.3 billion (1.5%)	\$1.0 billion (5.7%)
SPP funding unacquitted ^(b)		\$2.9 billion (16.1%)	\$4.5 billion (24.6%)
Acquittals overdue for at least ...		16 months	4 months

(a) Acquittals provided by the States and Territories but not yet processed, or where further information is required, by the Commonwealth.

(b) Excludes acquittals in progress.

3.14 On a State by State basis, NSW and ACT have acquitted the greatest percentage of 1995–96 and 1996–97 SPP funding. The remaining States and Territory have each acquitted a substantially smaller percentage of funding. Figure 2 illustrates the status of 1995–96 and 1996–97 acquittals by State and Territory. Table 24 illustrates the percentage of 1995–96 and 1996–97 (both years combined) SPP funding that remains unacquitted by State and Territory.

¹³² This excludes the two SPPs with ‘acquittals in progress’.

¹³³ This excludes the one SPP with ‘acquittals in progress’.

¹³⁴ Assuming that all acquittals (including the ‘no time period specified’ and ‘as soon as practicable’ acquittals) should be provided within 6 months.

Figure 2
Statement of 1995–96 and 1996–97 acquittals by State and Territory

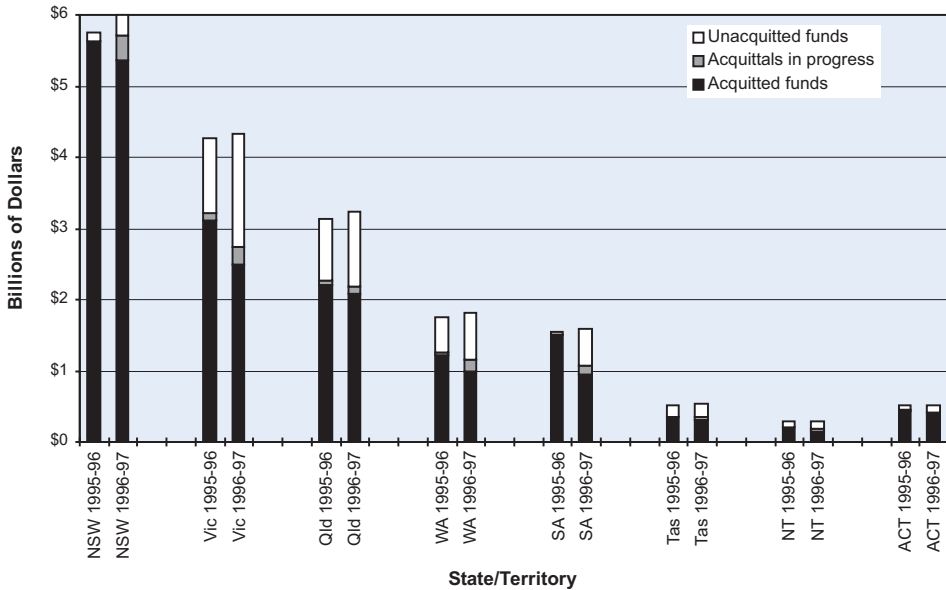


Table 24
Unacquitted SPP funding by State/Territory—1995–96 and 1996–97 combined

State/Territory	Unacquitted funding as a percentage of ...	
	State/Territory SPP funding	All SPP funding
NSW	6.5	5.7
Vic	34.9	35.9
Qld	32.6	25.9
WA	38.2	15.9
SA	21.4	7.0
Tas	35.6	4.5
NT	39.1	2.6
ACT	18.2	2.4
Total		100.0

3.15 The rate of acquitting 1995–96 SPP funding has deteriorated significantly since the previous ANAO Survey. At that time, acquittals for some \$0.9 billion (6.3 per cent of the value of SPPs surveyed at the time) in four SPPs were overdue by at least some 21 months.¹³⁵

¹³⁵ Assuming that all acquittals (including the 'no time period specified' and 'as soon as practicable' acquittals) should be provided within 6 months.

Follow-up of outstanding acquittals

3.16 In the current survey, the ANAO sought the views of agencies as to when they expected to acquit the majority of the overdue and unacquitted 1995–96 and 1996–97 SPP funding. The former DHFS indicated that it did not know when it would receive overdue acquittals for the two Public Hospitals SPPs which represents more than half of all unacquitted funds for both years. However, the former DHFS has followed up the matter with the States and Territories (see Case Study 5) with limited success. Although the former DHFS has received some HACC acquittals from the States and Territories for 1995–96 and 1996–97, The former DHFS did not expect to complete processing of the acquittals until sometime after November 1998. Agencies indicated that they expected to acquit the majority of funding for most other SPPs no later than June 1998. In its follow-up of some acquittals, the ANAO later observed that only some of this funding had been acquitted by this time.

3.17 The acquittal of HACC funding is a complicated, time-consuming and resource intensive process for the former DHFS and the States and Territories. As DHFS approves individual HACC projects, the States and Territories are required to acquit HACC funding on a project-by-project basis. These acquittals have then to be checked by the Commonwealth agency. In NSW alone, for example, there are over 3000 projects. The former DHFS indicated that, within the current renegotiation of HACC, all parties are looking to streamline and simplify the project approval and funding acquittal process in future years. The most likely option is to approve and acquit funding on a regional basis. The ANAO supports moves by the parties to HACC to simplify the acquittal process.

3.18 Given the deterioration of acquitting SPP funding since the previous ANAO survey, the ANAO considers that agencies should ensure that the timely submission of acquittals by the States and Territories are treated as a higher priority for attention in the administration of SPPs. In addition, the use of appropriately targeted incentives (such as a payment from a 'bonus' funding pool)¹³⁶ may encourage the States and Territories to submit SPP funding acquittals on time.

SPP funding acquittals conclusions

3.19 Annual financial acquittals provide the means by which the Commonwealth receives assurance that the SPP funding it provides to the States and Territories is spent in accordance with the SPP agreements. The ANAO found a significant deterioration in the rate of acquitting SPP funds from that in the 1994–95 Survey. Sixteen per cent of 1995–96, and 30 per cent

¹³⁶ Paragraph 2.147 of this report describes the bonus funding pool concept in greater detail.

of 1996–97, SPP funding have not been acquitted. Of the \$2.9 billion in 1995–96 funding for 8 SPPs unacquitted (and overdue by at least 16 months at the time of the audit), over 99 per cent of these funds are in SPPs administered by Health. Some \$4.5 billion in 1996–97 SPP funding remains unacquitted. On a State-by-State basis, NSW and ACT have acquitted the greatest proportion of 1995–96 and 1996–97 SPP funding. The remaining States and Territory have each acquitted a substantially smaller percentage of SPP funding.

Case Study 5

Outstanding Public Hospital SPP acquittals

As at August 1998:

- only NSW has provided all the necessary acquittals for each year of funding up to 1996–97;
- Qld has not provided funding acquittals for the past four years (1993–94 to 1996–97);
- WA has not provided funding acquittals for four of the five past years (1992–93, 1993–94, 1995–96 and 1996–97);
- Vic, Tas and NT have not provided funding acquittals for the past three years (1994–95 to 1996–97); and
- ACT has not provided funding acquittals for the past two years (1995–96 and 1996–97).

In addition, the agreed format of the acquittal does not separate Commonwealth funding from funding from the States/Territories and other sources. As a result, the Commonwealth must assume that all Commonwealth funding has been incorporated in the total 'gross operation costs of public hospitals' figure.

In late-January 1998, the former DHFS wrote to the States and Territories requesting them to provide, *inter alia*, the overdue acquittals by the end of February 1998. As at late May 1998, no acquittals have been provided by the States and Territories. Health has indicated that a further request was made in September 1998 and informal advice from the States is that they are endeavouring to provide outstanding acquittals.

Under the Medicare Agreements, the Commonwealth has the power to reduce any payments made or to be made to any State or Territory where the State or Territory fails to comply with any provision of the agreement (including the submission of annual acquittals). However, at no time in the past four years has the Commonwealth applied this power in relation to overdue acquittals.

ANAO Comment

The ANAO considers that the acquittals under the Public Hospitals SPPs are important as they provide assurance to the Commonwealth that funding was spent by the States and Territories in accordance with the terms of the Medicare Agreement—including the guiding Medicare Principles and Commitments. If problems with the receipt of acquittals by the Commonwealth continues, perhaps Health could consider changing the method of acquittal to 'Disclosure in the financial statements' of State/Territory health departments.

The ANAO understands the practical difficulty in Health withholding or delaying Public Hospitals funding until overdue acquittals are provided. Such action could adversely impact on the administration of hospitals—affecting patients. Chapter 2 of this report (from para. 2.129) analyses the availability, use and effectiveness of incentives and sanction in greater detail.

3.20 The ANAO recognises the difficulties experienced by Commonwealth agencies in obtaining SPP funding acquittals from the States and Territories. Although agencies may have the ability to withhold or delay SPP funding where acquittals remain continually overdue, agencies are generally reluctant to take such action as it could adversely impact on SPP beneficiaries. The ANAO considers that the use of appropriately targeted incentives (such as a payment from a ‘bonus’ funding pool) may encourage the States and Territories to submit SPP funding acquittals on time. In essence, there is a risk management assessment that has to be made generally, and on a case-by-case basis.

3.21 The ANAO examined the various methods of acquitting SPP funds and found that:

- the Payment on Performance method is the preferable (cost effective) acquittal method (where performance indicators, targets and milestones have been appropriately defined and agreed by both the Commonwealth and the States and Territories) as it links payments more directly to the achievement of outcomes. In 1996–97, only four SPPs (accounting for less than half a per cent of total SPP funding) used this method of acquittal;
- if the Payment of Performance method is not possible, the Disclosure in Financial Statements method can streamline the SPP acquittal process where SPP funding constitutes a significant (material) proportion of income for the SPP recipient. In 1996–97, ten SPPs acquitted their funding using this method; and
- statements or certificates of expenditure are appropriate acquittal methods in the remaining situations. Some 88 per cent of relevant SPPs still acquit their SPP funding by either of these two particular methods.

3.22 The ANAO recognises that changing the method of acquittal and the time requirements of SPP acquittals may not be possible during the life of the current SPP agreement and/or applicable legislation. In such cases, the ANAO suggests that agencies consider these issues when SPP agreements are renegotiated and/or legislation reviewed.

Recommendation 6

3.23 The ANAO *recommends* that agencies:

- a) consider and advise on, for future agreements, the scope for paying and acquitting SPP funding on performance where appropriate performance indicators, targets and milestones have been defined and agreed by the Commonwealth and the States and Territories;

- b) where (a) is not feasible, consider using the Disclosure in Financial Statements method to acquit SPP funding where it constitutes a materially significant component of annual income for the SPP recipient; and
- c) press for future SPP agreements to require acquittals to be provided within six months of the end of the funding year and that the submission of acquittals by the States and Territories are treated as a higher priority for attention in the administration of SPPs.

Agencies' responses

3.24 All key agencies agreed with this recommendation except for Health which agreed with qualification, and Treasury which did not comment. Health indicated that the report does not provide any mechanism to enable part (c) of the recommendation to be met. The ANAO considers that the report recognises the difficulties experienced by some agencies in obtaining financial acquittals from some States/Territories and provides options, such as appropriately targeted incentives and alternate acquittal methods, as possible solutions.

Cash Management

3.25 The Easson Task Force noted that SPPs comprised some 15 per cent of total Commonwealth expenditure.¹³⁷ Consequently, sound cash management practice for SPP funds is important.

3.26 The primary objective of cash management is

*to balance the cash flow needs of efficient and effective program delivery with the need to minimise the financing/borrowing costs of the Commonwealth of meeting those cashflows.*¹³⁸

Current cash management practice in relation to SPPs is guided by DOFA Estimates Memorandum 1997/18 which indicates that the Government:

*decided that the underlying cash management principles of the Task Force relating to SPPs be adopted by those agencies administering SPPs, where appropriate, when the agreements are negotiated or earlier if the opportunity for review arises . . .*¹³⁹

¹³⁷ Department of Finance Task Force on Payments to Statutory Authorities and Specific Purpose Payments to the States (1996) *Report on cash management issues concerning Commonwealth payments to Statutory Authorities and Specific Purpose Payments to the States* ('the Easson Report'), p. 42.

¹³⁸ Department of Finance (1997) *Estimates Memorandum 1997/47 – Cash Management of Payments to Statutory Authorities and to the States via Specific Purpose Payments*, p. 1.

¹³⁹ Department of Finance (1997) *Estimates Memorandum 1997/18 – Review of Cash Management of Specific Purpose Payments (SPPs) to the States and Territories*, p. 1.

3.27 The Estimates Memorandum further indicates that the Government's decision should be implemented on a case-by-case basis taking into account the differences in scope, purpose and operation of the various SPPs, and:

the following key principles should apply:

- *cash management should facilitate, not impede, program delivery objectives; and*
- *where payments are made in advance, cash should be made available in sufficient time to meet, but not significantly in advance of, the essential cash flow requirements of programs.*¹⁴⁰

3.28 JCPA Report 342 and the Easson Task Force Report highlighted the importance of better cash management including improving forecasting cash requirements.¹⁴¹ JCPA Report 342 noted that:

*Given the sums that are involved, the timing of SPP payments can affect the Commonwealth's day to day account balances. Large and badly timed transfers can place pressure on the Commonwealth's cash holdings and contribute to the need for short term borrowings to cover any cash shortfalls.*¹⁴²

3.29 JCPAA Report 362 issued recently endorsed the importance of good cash management and the findings of JCPA Report 342 and the Easson Task Force Report. DOFA's Estimates Memorandum 1997/47 and a Better Practice Guide recently released by the ANAO provides practical guidance to agencies to improve their cash management.

3.30 The ANAO notes that some agencies have made some improvements to SPP cash management since JCPA Report 342 was published. For example, payments from the Schools, Indigenous Education Strategic Initiatives and the Employment Strategies for Indigenous Australians programs in DETYA and the Pathology and Mental Health programs in the former DHFS are now made to coincide more closely with (what were) peak taxation receipts.¹⁴³ In addition, in-advance payments made under the Supported Accommodation Assistance Program (SAAP) in the former DHFS are now made more frequently, reducing and delaying

¹⁴⁰ *Ibid.*, p. 2.

¹⁴¹ *Op. cit.*, Joint Committee of Public Accounts (1995); and *Op. cit.*, Department of Finance Task Force on Payments to Statutory Authorities and Specific Purpose Payments to the States.

¹⁴² *Op. cit.*, Joint Committee of Public Accounts (1995), p. 84.

¹⁴³ Treasury advises, however, that as taxation receipts are now received by the Commonwealth more evenly throughout the year than was the case in the past, the cash management advantages from matching the payment of SPP funds to peak taxation receipts are significantly lessened.

the amount of any consequential short-term borrowing by the Commonwealth.

3.31 However, while these improvements have assisted in moving the Commonwealth towards better cash management practice a number of outstanding areas require further attention. These are discussed below.

Forecasting Payments by Commonwealth agencies

3.32 To manage the Commonwealth's cash balances over time, Treasury must be aware of when and how much income (for example, taxation receipts) the Commonwealth is likely to receive and when and how much expenditure (including SPP payments) the Commonwealth is likely to incur. The Commonwealth earns interest on its positive daily cash balances and incurs significant interest penalties (of between two to three per cent, on average) every day its cash balance is in overdraft. Treasury arranges for the Commonwealth to borrow funds to maintain positive daily cash balances where Treasury considers that forecasted income will not be sufficient to cover forecasted expenditure. The interest rate at which the Commonwealth borrows funds is, on average, about 0.10—0.15 per cent greater than the interest rate the Commonwealth earns on its positive daily cash balances.¹⁴⁴ Treasury's overall cash management strategy, therefore, is to maintain the lowest positive daily cash balance practicable without going into overdraft.

3.33 To facilitate Treasury's cash management strategy, agencies should provide SPP payment forecasts to Treasury at the start of each financial year indicating the timing and size of payments (that is, 'long-term forecasts'). These long-term forecasts then form the basis of Treasury's longer run borrowing strategy. Treasury expects agencies to maintain less formal contact with Treasury to identify and accommodate the frequent variations to the agency long-term forecasts. These form the basis of short-term forecasts used by the Treasury for formulating its short-term borrowing strategy.

3.34 Treasury has indicated that information on daily transactions greater than \$1 million in programs helps Treasury track expenditure and improve forecasts.¹⁴⁵ Although not a formal requirement, Treasury has indicated that it would like to be notified of coming payments in excess of

¹⁴⁴ Although on some occasions the interest rate the Commonwealth earns on positive daily cash balances can be greater than the interest rate at which the Commonwealth borrows funds. However, in the longer term, the borrowing interest rate would exceed the positive daily cash balance interest rate by some 0.10 – 0.15 per cent, on average. 0.5 per cent equals 50 basis points.

¹⁴⁵ ANAO (1999) *A Better Practice Guide to Cash Management*, p.16.

\$5 million, in particular. However, the ANAO identified agencies administering seven SPPs that made 40 payments in excess of \$5 million that did not provide forecast information to Treasury. In 1996–97, these payments totalled some \$420.4 million which represented some 2.3 per cent of SPP payments. Large unforecasted SPP payments can seriously undermine Treasury’s ability to optimally manage the Commonwealth’s cash balances. In extreme cases, the Commonwealth runs the risk of its cash balances going into overdraft and incurring significant additional interest penalties. The ANAO considers that agencies that make SPP payments greater than \$5 million should provide forecasts to Treasury in the interests of good cash management for the Commonwealth as a whole.

3.35 The former DHFS administered four of the seven SPPs that made payments in excess of \$5 million in 1996–97 (ie. where Treasury would like to be notified of coming payments). In relation to the SAAP, the former DHFS considered that maintaining regular contact with Treasury would be of little value as this SPP is not particularly large in terms of total Commonwealth cash management activities. The former DHFS indicated that in relation to the National Mental Health Strategy and the Highly Specialised Drug Program, payment forecasts (aggregated by month) were provided to DOFA and entered in DOFA’s Financial Management and Resource Management system. AFFA indicated that it is only able to give Treasury a week’s range and approximate figures for RAS payments as AFFA is dependent on the information contained in the current month’s acquittals from the States and Territories. In relation to the Natural Disaster Relief Program, DOFA indicated that it was not aware that Treasury wished to be notified of payments in excess of \$5 million but is willing to provide forecast information in the future. A-Gs indicated that there was no plan to provide Treasury with payment forecasts for the Legal Aid program until A-Gs receives formal notification to do so.

3.36 The major sources of variation in Commonwealth cash forecasts against actual payments arise because payments:

- are either made earlier than anticipated or delayed by a day or two, or sometimes longer;
- occur but had not been scheduled at all;
- are scheduled but not made; and
- go ahead as scheduled but are smaller or larger than expected.

3.37 Although agencies managing only 21 (29.6 per cent) of the 71 SPPs examined provided Treasury with long-term forecast information, these represented some \$15.9 billion (85.1 per cent) in total 1996–97 SPP funding. Taken as a whole, the match between long-term forecasts and actual

payment amounts and dates is sound, particularly in the second half of the financial year. However, in the first half of the year the long-term payment forecasts aggregated on a weekly basis exceeded the actual amounts paid by agencies by \$100 million or more on four occasions. The apparent accord between long-term forecasts and actual payments as a whole for the Commonwealth disguises the variability of individual SPP forecasts to actual payments (summarised in Table 25).

Table 25

Accuracy of forecasting for the 21 largest SPPs

	Long-term forecasts ^{(a)(b)}	Short-term forecasts ^(a)
	<i>(generally provided annually)</i>	<i>(generally provided within two days to two weeks of payment date)</i>
Timing of Payments	Payment dates ranged from 22 working days earlier than forecast to 21 working days after forecast. On average (mean), actual payment days varied from forecast payment days by ± 2.9 working days than forecast. 68% of payments occurred between 4.2 working days before and 6.4 working days after, the forecast dates.	Payment dates ranged from 9 working days earlier than forecast to 16 working days after forecast. On average (mean), actual payment days varied from forecast payment days by ± 1.1 working days than forecast. 68% of payments occurred between 2.4 working days before and 3.4 working days after, the forecast dates.
Size of Payments	Payment amounts ranged from \$499.1 million less than forecast to \$103.9 million greater than forecast. On average (mean), actual payments varied from forecast payments by $\pm \$12.5$ million. 68% of payments were between \$51.3 million less than and \$46.9 million greater than, the forecast amounts.	Payment amounts ranged from \$23.9 million less than forecast to \$27.7 million greater than forecast. On average (mean), actual payments varied from forecast payments by $\pm \$0.8$ million. 68% of payments were between \$3.3 million less than and \$3.9 million greater than, the forecast amounts.

(a) Excludes the four Schools—General and Targeted Assistance SPPs valued at some \$3.4 billion (18.1 per cent of the value of all SPPs surveyed) because complete payment details could not be obtained.

(b) Excludes the HACC SPP and the three road-related SPPs valued at some \$1.3 billion (7.0 per cent of the value of all SPPs surveyed) because long-term forecasts were not available.

3.38 Treasury has indicated to the ANAO that, to more efficiently manage Commonwealth cash, it would like agencies to provide accurate daily payment forecasts at the beginning of each week to the middle of the following week (that is, forecasting up to ten days ahead).¹⁴⁶

¹⁴⁶ *Op. cit.*, ANAO (1999) p. 17.

3.39 Agencies administering SPPs valued at \$17.2 billion in 1996–97 (91.9 per cent of the value of all SPPs surveyed) provided accurate short-term forecasts to Treasury throughout the year by maintaining regular telephone or fax contact. As a result, the overall variability of forecast payments to actual payments decreased significantly once short-term forecasts are taken into account (see Table 25). However, the ANAO found that agencies were often contacting the Treasury only two to three days before payments were made.

3.40 The ANAO recognises that providing timely, accurate payment forecasts to Treasury can be made more difficult where:

- payments are dependent upon the States and Territories lodging claims or acquittals of previous funding provided, the timing and/or amount of which are uncertain or unknown until received; and
- future payments are adjusted to take into account when and how much the States and Territories spend throughout the funding year.

3.41 A number of SPPs are characterised by these factors. These include:

- RAS (\$105.3 million in 1996–97);
- Public Hospitals—Bonus Payments (portion of \$686.5 million);
- SAAP (\$127.3 million);
- Road Safety Black Spot Program (\$36.0 million); and
- HACC Program (\$451.2 million).

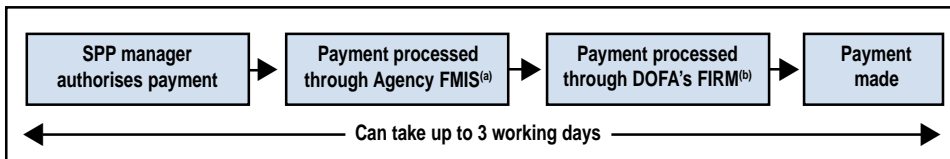
3.42 In situations such as these, the ANAO considers that, by varying payment schedules to, in effect, delay payments by five to seven working days, agencies would be able to give Treasury sufficient notice of imminent payments (see paragraph 3.38). If the Commonwealth considered that such a delay could unduly impact on SPP recipients' ability to achieve SPP objectives, consideration could be given to including a small in-advance sum in each payment to cover the funding delay. The ANAO recognises, however, that agencies may not be able to vary payment schedules during the life of the current SPP agreement (and/or applicable legislation). In these cases, the agencies should consider making variations to payment schedules in the SPP renegotiation process, after consideration of overall cost-effectiveness and cash-flow impacts.

3.43 A further issue noted by the ANAO was that payment dates recorded by agencies' financial management information systems did not always match the dates when payments were *actually* made by the Reserve Bank of Australia (RBA) to the States and Territories. With respect to payments recorded by agencies *before* the actual payment date, the ANAO considers that the problem may have occurred because some SPP managers

may not be fully aware that a delay can exist between when payments are authorised and when they are *actually* paid. This can be exacerbated by Financial Management systems that may incorrectly record the date of payment. Where such a delay occurs and, as a consequence, Treasury borrows funds earlier than needed, the Commonwealth incurs a small interest charge. The ANAO found that 90 per cent of payments for the four Schools SPPs over the first half of the financial year were recorded as occurring between two and five days prior to the RBA's actual payment date. Similarly, 77 per cent of the SAAP SPP payments were recorded as being made one to seven days before the RBA's actual payment. Depending upon the payment processing systems in place within agencies, it may take up to three working days to make a payment from the time it is authorised. Figure 3 illustrates the basic stages involved in making a payment.

Figure 3

Basic stages involved in making an SPP payment



(a) Financial Management Information System

(b) Financial Information and Resource Management system

3.44 Some agencies were also found to record payments on dates *after* the RBA's actual payment dates—on one occasion eight days after the RBA's payment. However, the ANAO notes that most of these payments (77.8 per cent) actually occurred between one and two days later than recorded on departmental financial systems. If these timing differences are not agency recording discrepancies, the Commonwealth risks its cash balances going into overdraft as it may not have borrowed sufficient funds in time to cover the payments. The ANAO considers that agencies should be fully aware of the time it takes for payments to be authorised to the time they are made and factor this into any cash payment forecasts provided to Treasury.

Recommendation 7

3.45 The ANAO *recommends* that:

- a) all agencies that make SPP payments greater than \$5 million provide short-term forecasts to Treasury (taking into full account the time lag between when agencies authorise payments and when the Reserve Bank of Australia actually makes payments);

- b) agencies adjust their SPP payment schedules, where possible, so that Treasury can be given accurate daily payment forecasts, covering payments for the subsequent seven working-day period; and
- c) where payment schedules cannot be varied during the life of the current SPP Agreement or the life of applicable Commonwealth legislation, agencies consider and advise on implementation of (b) as part of new SPP agreements or in Commonwealth legislation as appropriate.

Agencies' responses

3.46 All key agencies agreed with this recommendation except Treasury which did not comment.

The Management of Cash Flow

3.47 From the Commonwealth's cash management perspective, it is far more desirable to structure SPP payment to reimburse expenditure of the States and Territories than to make in-advance payments. However, the ANAO recognises that in many cases the Commonwealth is not able to negotiate a reimbursement payment structure. In 1996–97 some 55 SPPs (77.5 per cent of all SPPs surveyed) were paid fully or partially in advance. These in-advance payments totaled some \$16.6 billion in 1996–97 (87.0 per cent of the value of all SPPs surveyed).

3.48 In all cases where SPP funding is paid in-advance of need the ANAO recognises that there will be times when the States and Territories possess unspent SPP funds. Funding provided in advance of need allows the States and Territories to earn, and as a result the Commonwealth foregoes, interest income—the more funds involved and the longer the period involved, the greater the cost to the Commonwealth. The Commonwealth's goal therefore should be to keep unspent SPP funds to a minimum by closely matching its payments to State and Territory needs.

3.49 The funding acquittals submitted by the States and Territories (at least annually) provide an indication at one point in time in the year of how well payments match needs by showing the amount of Commonwealth funding:

- spent by the States and Territories for the year; and
- remaining unspent by the States and Territories at end of the year.

3.50 Table 26 illustrates the amount of unspent funds held by the States and Territories at the end of the 1995–96 and 1996–97 years respectively.

Table 26
Characteristics of unspent funds

	1995–96 ^(a)	1996–97 ^(b)
Unspent funds at year end	\$400.9 million (2.3% of all 1995–96 funding)	\$295.0 million (1.5% of all 1996–97 funding)
Unspent funds as a percentage of available State/Territory funding	Low—1.6% for Vic High—3.8% for ACT	Low—0.8% for Vic High—2.5% for WA & NT
Of all unspent funds...	96.4% (\$386.4 million) related to only 14 SPPs	95.6% (\$282.8 million) related to only 11 SPPs
The ANAO estimates that: • Unspent funds were spent ...	within 1 to 131 days of the start of the next funding year	within 2 to 207 days of the start of the next funding year
• Unspent funds spent within 15 days of the start of the next funding year	58.2% ^(c)	51.8% ^(d)
• Unspent funds spent within one month of the start of the next funding year	81.5% ^(c)	78.9% ^(d)

- (a) This information relates to the acquittals received that accounts for 81.6 per cent of 1995–96 SPP funding. However, the ANAO considers that the SPPs that were likely to have significant unspent funds at year end have submitted acquittals.
- (b) This information relates to the acquittals received that accounts for 71.3 per cent of 1996–97 SPP funding. However, the ANAO considers that the SPPs that were likely to have significant unspent funds at year end have submitted acquittals.
- (c) Assuming that SPP funding is spent by the States and Territories at a constant rate in relation to six of the fourteen SPPs.
- (d) Assuming that SPP funding is spent by the States and Territories at a constant rate in relation to five of the eleven SPPs.

3.51 Table 26 shows that the majority of unspent SPP funding is spent by the States and Territories within a month of the start of the next funding year. However, a few SPPs had unspent funds that took the States and Territories, on average, many months to spend. The most notable example is the National Mental Health Strategy where some 30 per cent of 1996–97 funding remained unspent at year-end. The ANAO estimates that it took the States and Territories, on average, until mid-October 1997 to spend the \$18.2 million in National Mental Health Strategy funding that remained unspent at 30 June 1997 (that is, 111 days into the 1997–98 year). In NSW alone, the ANAO estimates it would have taken nearly seven months of 1997–98 for that State to spend its National Mental Health Strategy funds that remained unspent at the end of 1996–97.

3.52 With respect to the RAS, some States and Territories, particularly WA, have been in the possession of millions of dollars of unspent funds for many years. Instead of these unspent funds being returned to the

Commonwealth, Commonwealth and State/Territory Ministers agreed to offset the interest earned by the States/Territories on the unspent funds against future RAS payments to those States/Territories (see Case Study 6). The ANAO considers that this is a sub-optimal approach to managing unspent funds because it reduces Budget flexibility for the Commonwealth. As well, Treasury and DOFA have indicated that the Commonwealth is likely to be able to borrow at a lower interest rate than can the States and Territories.

Case Study 6

Rural Adjustment Scheme: correcting past practices

Under the RAS 1988 Agreement, payments were made to each State and Territory in four equal instalments in-advance each year. An annual acquittal of this funding was not required. However, under the RAS 1992 Agreement, the payment terms and conditions were changed so that payments would be made monthly in-advance and acquitted each month. In addition the States and Territories were required to exhaust any unspent SPP funding from the RAS 1988 agreement before receiving any funding under the RAS 1992 agreement. As at June 1997, all States and Territories, except WA (\$27.2 million), had exhausted their unspent RAS 1988 funding.

Although WA has been in the possession of millions of dollars in unspent funds for many years, the WA Government is not profiting from the interest it earns on these unspent funds. At the end of each year, AFFA offsets the interest income WA earns on the unspent RAS 1988 funding against annual RAS expenditure in WA.

ANAO Comment

Significant improvements in cash management practice occurred from the RAS 1988 Agreement to the RAS 1992 Agreement. Although WA does not benefit financially by retaining the unspent funds, it would have been preferable for excess funds to be returned to the Commonwealth at the time they were identified. As indicated by the Treasury and DOFA, the Commonwealth would have been likely to have earned a higher rate of interest than WA. Consequently, the Commonwealth's Budget flexibility has been reduced (as excess RAS funds could have been appropriated for other purposes had they been returned to Commonwealth consolidated revenue).

Cash expenditure patterns of the States and Territories

3.53 Although annual acquittals show the amount of SPP funding spent by the States and Territories for the year, acquittals do not indicate when States and Territories spend SPP funding during the year. For the Commonwealth to ensure that in-advance SPP funding is provided in time to meet the needs of SPP recipients while minimising the amount of unspent funding in the hands of the States and Territories, it first requires the Commonwealth to ascertain when the States and Territories spend the funding during the year.

3.54 Cash expenditure forecasts, provided regularly by the States and Territories throughout the year, are the primary means by which the Commonwealth monitors SPP expenditure by the States and Territories

throughout the year. The ANAO found, however, that in ten of the 20 largest SPPs paid in-advance, Commonwealth agencies did not receive cash expenditure forecasts from the States and Territories and were therefore not fully aware of when the States and Territories needed to spend Commonwealth SPP funding.¹⁴⁷ These ten SPPs had payments totaling \$2.2 billion in 1996–97.

3.55 The RAS, Road Safety Black Spot Program, Pathology Health Program Grants and the Highly Specialised Drug Program are good examples of effective monitoring of SPP expenditure of the States and Territories. Under these SPPs a ‘working balance’ of cash reserves is held by the States and Territories. The States and Territories:

- regularly ‘acquit’ funding previously advanced to them during the year (RAS—every month; Road Safety Black Spot—every two months); and
- provide a cash expenditure forecast that estimates the amount of SPP funds needed by the States and Territories to pay proposed expenditure until the next ‘acquittal’.

3.56 The ANAO considers that Commonwealth agencies would be better placed to introduce improved cash management practices (such as minimum ‘working balances’ of cash reserves) if they were more aware as to when the States and Territories actually spend Commonwealth funding during the year. The ANAO considers that the provision of regular cash expenditure forecasts by the States and Territories (adjusted for actual payments made previously) throughout the year would aid agencies to better match the payment of Commonwealth funds to State and Territory funding needs.

The Frequency of SPP Payments

3.57 In the absence of cash expenditure forecasts from many of the largest SPPs paid in-advance, the ANAO considered other methods of minimising the time and amount of SPP funding held by the States and Territories. Increasing the frequency of SPP payments to the States and Territories (for example, change from monthly payments to fortnightly payments) is one such method.

3.58 The frequency of in-advance SPP payments ranged from weekly (for example, Public Hospitals \$4.7 billion in 1996–97) and bi-monthly (for

¹⁴⁷ The Medicare Hospitals, Higher Education and Schools – General Assistance programs have been excluded because it is reasonable to assume that Commonwealth departments are aware of when the States and Territories spend this SPP funding which is paid in-advance (weekly, bi-monthly and monthly/quarterly respectively) for operational and recurrent purposes. Invariably, the State and Territories spend the overwhelming majority of these SPP funds in the year in which were provided.

example, Higher Education and Research at Universities \$5.1 billion) through to annual in-advance payments for some of the smaller valued SPPs.

3.59 Table 27 illustrates a possible model for making in-advance payments based on the value of each SPP. Of the 20 largest SPPs that were paid in-advance in 1996–97 (valued at \$16.9 billion), eight SPPs valued at \$6.5 billion were already paid as frequently as the ANAO model suggests at Table 27. Of the remaining twelve SPPs, the ANAO estimates that the Commonwealth would have saved some \$32 million in short-term borrowing costs had they been paid in accordance with Table 27 during 1996–97 (see Figure 4). This represents estimated savings of over \$4.5 million per interest rate percentage point per year.

Table 27

Possible model for making in-advance payments

Annual SPP Value ^(a)	Frequency of Payment
Greater than \$1 billion	Weekly
Greater than \$500 million and less than \$1 billion	Fortnightly or bi-monthly
Greater than \$120 million and less than \$500 million	Monthly
Greater than \$20 million and less than \$120 million	Quarterly
Less than \$20 million	Annually

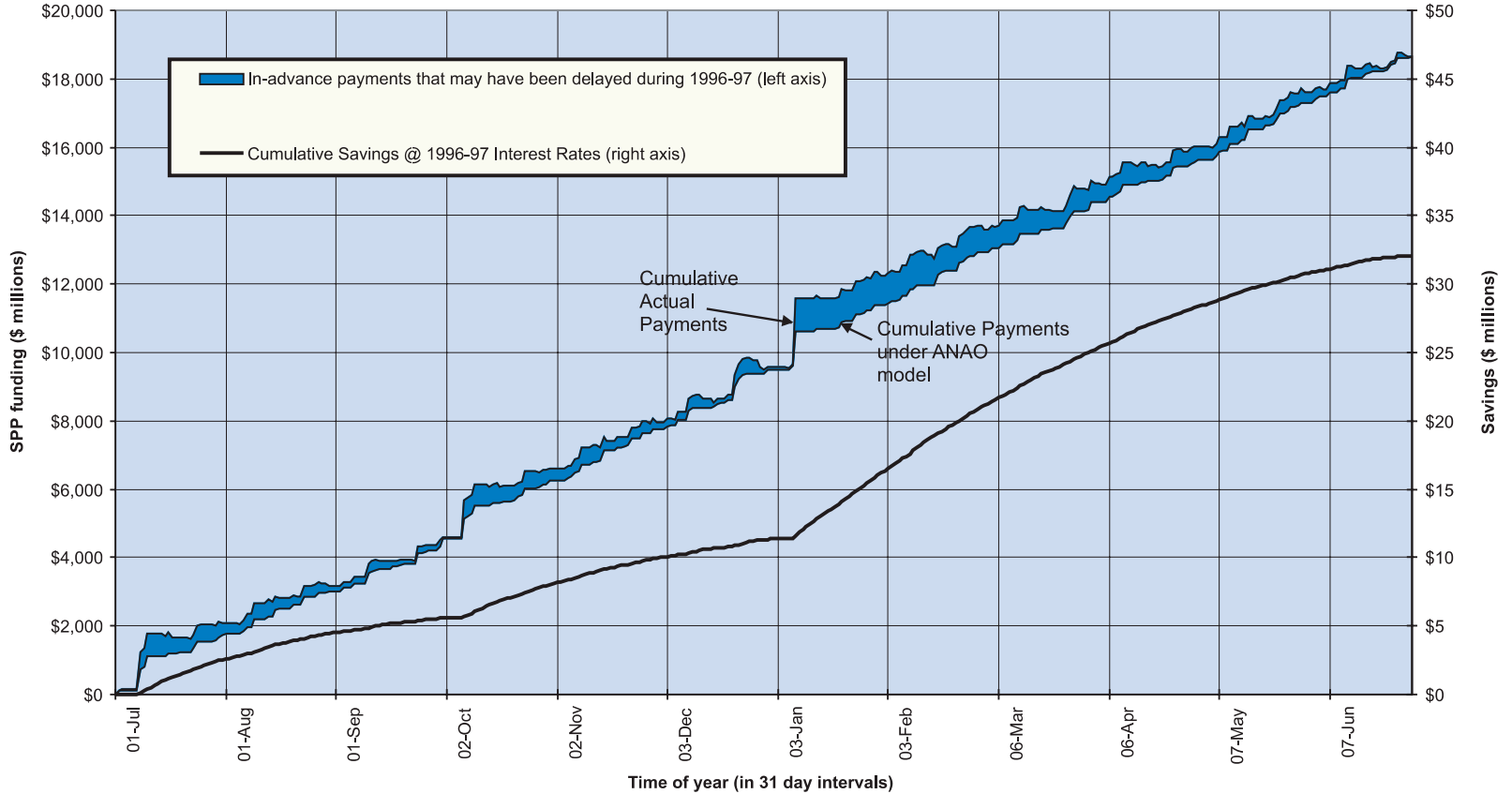
(a) The ranges were chosen because at the top of each range, interest savings of between \$87 500 and \$100 000 per interest rate percentage point per year are achieved.

3.60 Of all these twelve SPPs, the four Schools—General and Targeted Assistance programs have the greatest potential to achieve cash management savings. The ANAO estimates that moving to, primarily, weekly in-advance payments for the Schools programs would have saved over \$26 million in short-term borrowing costs during 1996–97. The estimated savings of each SPP are summarised at Appendix 6.

3.61 A few agencies have indicated that they would be reluctant to increase the frequency of their payments because of a corresponding increase in administrative effort to process more payment adjustments. The ANAO considers that the administrative effort required to move to more frequent SPP payments would be insignificant. This is partly because of improvements in electronic commerce. A rise in the number of payments does not have to increase the frequency of payment adjustments (if applicable to the SPP) that need to be processed. The current frequency of payment adjustments can still be maintained and the only change that would be necessary would be to advise Treasury of smaller, more frequent SPP payments.

Figure 4

In-advance payments delayed and savings achievable in 1996–97 under ANAO model



Impediments to improved cash management practice

3.62 The ANAO recognises that achieving program objectives is the highest priority. The ANAO notes that:

*The Commonwealth's primary objective continues to be efficient program delivery contributing to the advancement of desired outcomes. Good cash management is important to better program delivery but should not be seen as an end in itself—decision makers should aim to balance the needs of efficient program delivery with efficiently managing the Commonwealth's cash flows.*¹⁴⁸

3.63 For example, from 1997–98, payments to the States and Territories under the new Legal Aid Agreements are made quarterly in-advance whereas they were previously a combination of reimbursement and in-advance payments. A-Gs has indicated that these changes to cash management practices were the result of the negotiation process with the States and Territories as part of the new Legal Aid Agreements.

3.64 At least two SPP program areas in the former DHFS have indicated that moving to more frequent SPP payments would not be desirable because of the 'flow-on' effects to non-government service providers contracted by the States and Territories. The former DHFS indicated that under the SAAP, where payments to the States and Territories are currently made monthly in-advance, States and Territories make payments to some of their contracted service providers quarterly in-advance. In these situations, the States and Territories are already spending their own funds for up to two months until 'reimbursed' by the Commonwealth and may resist changes that would increase the time until reimbursement. However, the ANAO notes that the level of unspent funds for 1995–96 (\$400.9 million) and 1996-97 (\$295 million) would suggest that at least some programs have scope for improvement in this respect.

3.65 Another impediment to improved cash management practice is the inflexibility of payment schedules contained in current SPP agreements or relevant legislation. Of the twelve SPPs paid in-advance whose payment frequency the ANAO considers could be improved, the Commonwealth is currently able to vary the payment schedule of only one SPP until the agreements or applicable legislation expires (see Appendix 2). The remaining eleven SPPs have payment schedules fixed in SPP Agreements or legislation that expire between the end of 1998–99 and the end of 2000–01 (that is, some one to three years away). In situations where payment schedules are fixed until the expiry of SPP agreements or relevant legislation, the ANAO considers that cash management practices should

¹⁴⁸ *Op. cit.*, ANAO (1999), p. ?.

be reviewed within the context of renegotiation of new SPP agreements or legislation.

3.66 The ANAO also recognises that State and Territory Governments would lose interest income if the Commonwealth were to increase the frequency of SPP payments and reduce the amount of unspent SPP funding. However, as noted by the JCPA, such interest income are hidden subsidies to SPP recipients.¹⁴⁹ The JCPA considered that if recipients need the interest income to achieve SPP objectives, they should be funded directly through an appropriate increase in SPP funding.¹⁵⁰ The JCPAA has recently reinforced the view that SPP funds should not be released earlier than necessary to meet identified immediate funding needs of the States and Territories.¹⁵¹

Recommendation 8

3.67 The ANAO *recommends* that where SPPs are paid in-advance, agencies:

- a) obtain cash expenditure forecasts from the States/Territories regularly throughout each year in order to optimise the cash flow of payments and minimise the amount of unspent SPP funds; and
- b) where cost effective, consider moving to smaller and more frequent payments in line with better cash management practice. (If payment schedules can not be varied during the life of the current SPP agreement or Commonwealth legislation this recommendation should be considered as part of negotiation of new agreements or legislation).

Agencies' responses

3.68 All key agencies agreed with this recommendation except for A-Gs which disagreed; DTRS which disagreed with part (b) only; DETYA and FACS which agreed with qualification; and Treasury which did not comment. A-Gs disagreed in relation to the Legal Aid and Family Services program only. A-Gs indicated that any move to change the current payment arrangements in terms of frequency of payments will have an impact on current funding levels for legal aid. Interest earned by commissions on invested Commonwealth funds is counted as part of the Commonwealth's contribution to legal aid funding in each State and Territory. The ANAO considers that SPP agreements or arrangements that explicitly take account of interest earned by the States and Territories from Commonwealth SPP funding would satisfy this recommendation. DTRS considers that the

¹⁴⁹ *Op. cit.*, Joint Committee of Public Accounts, p. 86.

¹⁵⁰ *Ibid.*, p. 86.

¹⁵¹ *Op. cit.*, Joint Committee of Public Accounts and Audit (1998), p. 42.

currently monthly payment arrangements are appropriate for a program of the size and nature of the Australian Land Transport Development program which has fairly constant cash flow requirements over the course of the year. In addition, the monthly payment arrangements require the States and Territories to provide comprehensive financial information on each project, and any moves to increase the frequency of providing this information would be met by resistance from the States and Territories. DETYA's qualification relates to consideration of the impacts on Commonwealth-State relations and when current SPP agreements are being renegotiated. FACS has indicated that under the 1996 CSHA, the Commonwealth moved away from the provisions of the 1989 CSHA which had required estimates of expenditure prior to grant payment—they were seen as too prescriptive, administratively cumbersome and an interference in State affairs.

3.69 The ANAO notes that the agency views expressed above are not consistent with the JCPAA which considered that

it is imperative that [agencies] ... ensure funds are released no earlier than necessary to meet identified immediate funding needs of other parties in relation to SPP programs.¹⁵²

Incentives for Better Cash Management Practice

3.70 The ANAO notes that DOFA recently announced the introduction of agency banking arrangements from 1 July 1999. These arrangements will require agencies to manage their own bank accounts (held either with the RBA or with a private sector bank) and their payment and receipt processing. It is intended that agencies will draw administered funds (of which SPP funding is a part) daily to meet their administered payment obligations. The ANAO considers that this will require agencies to have a greater degree of accuracy in their forecasting DOFA indicated that agency cash management performance with respect to administered funds may be reviewed on a case-by-case basis.¹⁵³ Incentive mechanisms to encourage agencies to formulate sound cash management and forecasting may also be considered in the future.

3.71 The ANAO notes that several state governments, including the ACT, New South Wales and Western Australian Governments, have already introduced agency banking arrangements. The New South Wales Government has incorporated incentives for good daily cash flow forecasts, such as extra (notional) interest earned on agency account balances where forecasts are accurate; the Western Australian Government is considering introducing a similar mechanism into its own banking arrangements.

¹⁵² *Ibid.*, p. 42.

¹⁵³ Department of Finance and Administration (1998) *abp solutions*, Issue 8, p. 2.

Cash management conclusions

3.72 SPP outlays represent some 15 per cent of total annual Commonwealth outlays. The ANAO has found that, while there have been some recent improvements in SPP cash management, positive cash savings for the Commonwealth can be achieved by:

- agencies improving the provision of accurate and timely cash forecasts to Treasury for all SPP payments, particularly those greater than \$5 million;
- reducing further the amount of unspent funds held by the States and Territories (some \$400 million at the end of 1995–96 and \$295 million at the end of 1996–97) by more closely matching the provision of SPP funds to State and Territory needs (regular cash expenditure forecasts provided by the States and Territories are one means by which this can be achieved); and
- making smaller, more frequent in-advance SPP payments than is currently the case. (The ANAO estimates that the Commonwealth's short-term borrowing costs could have been reduced by some \$32 million by this means during 1996–97 with insignificant additional administration costs for those involved).

3.73 The ANAO recognises that, in most instances, changes to SPP payment schedules cannot be implemented during the life of the current SPP agreement or applicable legislation. In these circumstances, the ANAO considers that the recommended changes could be incorporated into any future SPP agreement or legislative review.

3.74 Improvements in cash management should not put at risk the cost effective achievement of SPP objectives. The States and Territories could be directly funded through an appropriate increase in Commonwealth allocations, as was recommended by the JCPA in 1995, if these funds are really needed to achieve SPP objectives. The achievement of better cash management practices may also be further enhanced through the introduction of agency banking from July 1999, particularly where they contain incentives for better practice.

Administrative efficiency and cost-effectiveness

3.75 The ANAO has defined administrative costs as resources, expressed in financial terms that are consumed in administration. Within the context of SPPs, they include human, financial and capital resources used for activities such as policy development associated with the SPP, the development of program guidelines, monitoring, review and evaluation, strategic planning and program support. They include all elements of the

running cost system and other elements of full or accrual costings including allocations of capital expenditure (through depreciation and amortisation) and corporate service costs.

Methodology for calculating SPP administrative costs

3.76 The ANAO considers that it is important for agencies to have sound and consistent basis for calculating SPP administrative costs so that SPP efficiency and overall cost effectiveness can be fully determined. This importance has been heightened by the intended introduction of the Accrual Budgeting Framework where agencies will be expected to fully cost their outputs.

3.77 The ANAO found, however, that the annual cost of administering SPPs (expressed on a full cost or accrual basis) is not yet available in most agencies for the majority of their SPPs. The ANAO, therefore, developed a methodology to calculate the estimated Commonwealth's cost of administering each SPP (using accrual-based costing information contained in departmental 1996–97 annual reports supplemented by additional information from the SPP survey).¹⁵⁴

3.78 In broad terms, the ANAO's methodology for calculating SPP administration costs allocates a share of departmental program costs and corporate overhead to SPPs on the basis of the number of staff involved in the administration of SPPs. The methodology also:

- includes consultancy costs directly related to the SPPs and excludes consultancy costs unrelated to the SPPs; and
- recognises that some SPP administration costs may not be incurred each year in the life of a multi-year SPP (for example, program evaluation costs incurred in the final year of the SPP's life) and averages these costs over the life of the SPP.

3.79 The ANAO's methodology for calculating SPP administration costs has been developed in consultation with DOFA which considered it to be relatively sound so long its underlying assumptions held true. These assumptions are:

- that the average cost per ASL¹⁵⁵ of administering the departmental program in which the SPP is managed, is the same as the average cost per ASL of administering the SPP;

¹⁵⁴ The ANAO's methodology for calculating SPP administration costs includes only those costs incurred by the **Commonwealth directly**. Costs incurred by the States and Territories in administering SPPs have not been calculated/estimated. It should be noted that the split-up of SPP administrative activities between the Commonwealth and the States and Territories varies from SPP to SPP and this influences the costs incurred by the Commonwealth in administering SPPs. However, the ANAO is not able to quantify this influence.

¹⁵⁵ ASL is the Average Staffing Level. One ASL equates to one person working full-time for one year.

- that it is reasonable to allocate a share of the expenditure under the Departmental Corporate Services program (or equivalent) to the cost of administering the SPP on the basis of the ratio of ASL administering the SPP to departmental ASL;¹⁵⁶ and
- that the cost per ASL of administering the SPP is the same regardless of the classifications of the staff involved (for example, ASO4 or SOG C). The ANAO considers that a cost per ASL that ‘averages’ across staffing classifications is sufficiently accurate for the purposes of this audit.

3.80 SPP administration costs calculated using the ANAO’s methodology were significantly higher than the administration costs derived by using DOFA’s costing guidelines.¹⁵⁷ The ANAO considers that this variation occurs because:

- some SPPs are managed in departmental programs that have a considerably higher administrative cost per staff member than the departmental average;
- DOFA’s 1991 costing guidelines did not fully take into account depreciation on property, plant and equipment (which can be significant in terms of costing activities); and
- expenditure profiles across the Australian Public Service are likely to have changed over the seven years since DOFA’s costing guidelines was developed (for example, increased use and costs involved in IT equipment).

Number of staff administering SPPs

3.81 The accuracy of SPP administrative cost calculations relies heavily on agencies being able to determine accurately the number of staff (expressed as ASL) involved in the administration of each SPP. The SPP survey validation process attempted to ensure the accuracy of the ASL involved in the administration of the largest SPPs and, importantly, for consistency across agencies. The ANAO considers that staff numbers involved in SPP administration have been determined consistently for all agencies except the former DHFS. DHFS had taken a narrower interpretation of administration than have other departments and, as a result, the ANAO considers that DHFS’s SPP administration costs are somewhat understated. The ANAO considers that costs associated with DHFS staff and consultants engaged in research incidental to operation of the SPPs (for example, staff in the Health Outcomes Branch and

¹⁵⁶ Where departmental corporate services costs have not been previously included in departmental program costs.

¹⁵⁷ Department of Finance (1991) *Guidelines for Costing of Government Activities*, AGPS, Canberra, p. 29.

Commonwealth own purpose outlays associated with the SPPs) have been excluded from the cost of administering former DHFS SPPs whereas such activities have been included in the cost of administering SPPs in other agencies.

Estimated cost of administering SPPs

3.82 The ANAO estimates that the Commonwealth's cost of administering the 71 SPPs included in the current audit was some \$68.8 million per annum involving over 550 ASL. This represents some one-third of one per cent of the value of SPPs in 1996–97. It also represents less than one-third of one per cent of the total cost of Commonwealth employees in 1997.¹⁵⁸ In addition, the Commonwealth funded some \$77 million in State/Territory administration costs in 1996–97.¹⁵⁹ These administrative costs compare favourably with the results of a national comparison of grant programs in 1997 which found that the ratio of administrative and support costs to total funds ranged from eight to 18 per cent of total funds for Federal Government programs.¹⁶⁰

3.83 The 1996–97 survey indicated cost of administering SPPs ranged from \$13.0 million per annum for the two Schools—General Assistance SPPs (involving some 104.9 ASL) to \$153 per annum for the Debt Retirement Reserve Trust Account SPP (involving one person for one day per year in total) which has no performance information requirements.

3.84 Table 28 summarises the cost of administering SPPs by agency. The table illustrates that some 58.3 per cent of total annual SPP administration costs and 62.8 per cent of total annual SPP administrative ASL are consumed in the eleven SPPs administered by DETYA. However, SPP administration costs in DETYA represented less than half a per cent of DETYA's SPP program costs. SPPs administered in DETYA and the former DHFS account for some 71 per cent of total annual SPP administration costs and 75.4 per cent of total SPP program costs. When SPPs administered in DTRS and FACS are also included they account for over 91 per cent of total annual SPP administration costs and over 95 per cent of total SPP program costs.

3.85 On a per ASL basis, the average cost of administering SPPs in the four agencies with the largest SPPs (in value) ranged from \$114 000 per ASL in DETYA to \$157 000 per ASL in Health. The differences in cost per ASL reflect different agency fixed costs.

¹⁵⁸ Commonwealth Government of Australia (1997) *Consolidated Financial Statements for the year ended 30 June 1997*, p. 51.

¹⁵⁹ From 1997–98 the Commonwealth no longer separately funds State/Territory administration costs for the National Highway System and Roads of National Importance SPP (\$27.4m in 1996–97).

¹⁶⁰ Coopers and Lybrand Consultants (1997) *National Survey of Funding Programs*, p. 70.

Table 28
Accrual cost of administering SPPs

Agency	No. of SPPs	1996–97 Program costs ^(a) (\$'000)	Estimated annual administration costs ^(b) (\$'000)	Administration costs as a percentage of program costs	Estimated ASL administering SPPs	Estimated cost per administering SPPs ^(c) (\$'000)
DETYA	11	8 744 143	40 127	0.46%	347.000	114
Health ^(d)	16	5 661 460	8 805	0.16%	55.650	157
DTRS	9	2 179 827	4 524	0.21%	40.355	117
FACS	11	1 605 374	9 182	0.57%	63.670	125
Treasury ^(e)	3	363 278	2	>0.01%	0.019	99
AFFA	8	170 775	1 990	1.17%	12.350	108
A-Gs	2	128 854	2 310	1.79%	14.755	134
DISR	4	209 295	651	0.31%	5.350	113
DOFA	1	20 483	193	0.94%	0.940	205
DVA	1	15 375	30	0.19%	0.300	100
DoEH	2	13 543	819	6.05%	10.500	89
DOCITA	1	1 000	9	0.9%	0.100	151
HREOC	1	905	61	6.69%	0.500	97
DIMA	1	174	73	41.80% ^(f)	0.800	91
TOTAL	71	\$19 114 486	\$68 775	0.36%	552.289	\$120

(a) Includes some \$400.9m in unspent 1995–96 funding held by the States and Territories carried over to 1996–97.

(b) Excludes Commonwealth-funded State/Territory administration costs (totalling some \$77m).

(c) SPP related and non-SPP related consultancies have been excluded from this calculation.

(d) The ANAO considers that the cost of administering the Health SPPs is somewhat understated.

(e) All the SPPs administered by Treasury are generally compensatory in nature—requiring no performance information. As a result the costs of administering them are low.

(f) The relatively high percentage of administrative costs to program costs for the DIMA SPP when compared to SPPs in other agencies reflects the intense level of support and liaison required by refugee minors and the Minister's guardianship responsibilities together with the economies of scale that can be achieved when administering larger- valued SPPs.

3.86 The ANAO considers that, for the majority of SPPs, the ANAO's estimate of SPP administration costs represents the best available information on the subject. While some agencies were unable as yet, to provide full accrual-based costing information, the intended introduction of the Accrual Budgeting Framework in 1999–2000 will require such a facility to be implemented as soon as practicable.

Factors influencing the cost of administering SPPs

3.87 While recognising that statistical regression and correlation analysis does not necessarily suggest cause and effect, the ANAO used:

- **regression analysis** to develop a statistical model that can be used to predict the cost of administering SPPs with performance information requirements based on other variables; and
- **correlation analysis** to measure the strength of associations between variables.¹⁶¹

3.88 The ANAO found that there was a strong positive correlation between the cost of administering SPPs and the amount of SPP funding. The ANAO also found some negative correlation between the cost of administering SPPs and the presence of SPP performance indicators measuring efficiency and, to a lesser extent, access and equity.¹⁶² At a 95 per cent confidence interval, no statistical correlation could be found between SPP administration costs and the presence of SPP effectiveness or quality performance indicators.

3.89 Taken together, 70 per cent of the variation in the cost of administering SPPs with performance information requirements can be explained by the amount of SPP funding and whether performance indicators measure efficiency and access and equity.¹⁶³

3.90 Although there are some exceptions (for example, Public Hospitals), the ANAO considers the correlation between SPP administration costs and SPP funding can be explained in part by the greater administration function needed to meet performance and financial accountability requirements. It is reasonable to assume that Parliament would have higher accountability expectations as SPP funding increases. Another explanatory factor is the greater complexity of the issues many of the larger SPPs are trying to address (for example, education and community services). The ANAO found that, other things being equal, a 10 per cent increase in SPP funding is associated with between a 5.2 and 9.6 per cent increase in SPP administration costs. This implies the existence of economies of scale so that an SPP with twice the level of funding tends to have less than twice the level of SPP administration costs. This result would tend to suggest that broadbanding SPPs could contribute to SPP administration cost savings.

3.91 ANAO considers that, generally, the close examination of SPP efficiency by agencies can have a ‘flow-on’ to SPP administrative efficiency.

¹⁶¹ The thirteen SPPs with little or no performance information requirements were excluded from the regression analysis. All variables apart from SPP funding were gathered from agency responses to the SPP survey.

¹⁶² It is unlikely that access and equity indicators directly contribute to administrative efficiency. This result is more likely to be reflecting a more indirect effect whereby, for example, SPPs with these indicators also have better efficiency indicators.

¹⁶³ At a 95 per cent confidence interval. Appendix 7 provides a summary of the regression analysis.

This explains in part the negative correlation between SPP administration costs and performance indicators that fully measure efficiency. Other things being equal, the regression results suggest that an SPP with fully-developed efficiency indicators will tend to have SPP administration costs that are at least 21.1 per cent lower than an SPP with partially-developed or no efficiency indicators.¹⁶⁴ This result would tend to suggest that further SPP administrative cost savings can be achieved by developing appropriate SPP performance indicators that fully measure efficiency in the 44 SPPs valued at some \$16 billion that do not currently have them. This finding adds further weight to ANAO recommendation 1.

3.92 The ANAO further considers that the regression model used for predicting the cost of administering SPPs (see Appendix 7) can assist in budgeting for agencies by estimating the cost of administering new policy proposals in relation to SPPs.

Recommendation 9

3.93 The ANAO *recommends* that agencies consider the implementation of appropriate financial costing systems to capture all significant accrual-based information of outputs or output groups (which would include the cost of administering SPPs) as part of their strategies for the introduction of the Accrual Budgeting Framework.

Agencies' responses

3.94 All key agencies agreed with this recommendation except Treasury which did not comment.



Canberra ACT
18 February 1999

P.J. Barrett
Auditor-General

¹⁶⁴ Refer to Appendix 7 for more specific information and calculations.

Appendices

Glossary

Access and Equity	Government strategies aimed at ensuring that government services meet particular needs of users, irrespective of their cultural and linguistic background, age, disability, religion etc., and achieve intended outcomes for them. Access and equity can also apply to program design and implementation in terms of ensuring that programs operate using the merit principle, in accordance with appropriate criteria.
Accountability	The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the reporting entity.
Accrual basis	The accounting basis whereby items are brought to account as they are earned or incurred (and not as cash is received or paid).
Acquittals	Documented evidence which indicates that funds have been expended in accordance with the terms and conditions under which they were allocated.
Administration costs	Resources, expressed in financial terms, consumed in administration. For the purposes of this survey/report, the ANAO is attempting to determine the costs of administering each SPP. This includes costs consumed directly by the Commonwealth in SPP administration <i>and</i> Commonwealth-funded administration costs of the States and Territories. Administration costs will be determined using the accrual basis.
Average staffing level (ASL)	A unit of measurement of human resources where one (1) average staffing level (or ASL) represents the full-time employment of one staff member for one year.
Better practices	Practices which are considered to be at, or near, the forefront of good management.
Cash forecasts	A statement summarising the intended or expected expenditure of cash within a given timeframe.

Cash management	Cash management includes all decisions made and all techniques employed to reduce the Commonwealth Government's net cost of borrowing through the improved timing of cash flows and management of cash balances. A net cost involves consideration of both interest payments and interest receipts.
Certificate of expenditure	Document summarising expenditure, provided to the Commonwealth by the funds recipient(s), certified by an authorised officer, that in the authorised officer's opinion the funds to which the statement relates were spent for its intended purposes.
Cost shifting	The practice of using Commonwealth monies to fund activities or projects that were funded formally by State/Territory or local governments.
Departmental program	A grouping of activities which contributes to a common strategic objective. Programs are usually further divided into sub-programs and components. The hierarchical arrangement of these constituent parts is called a program structure.
Departmental sub-program	A sub-program is a constituent, or part, of a larger departmental program.
Economy	Minimising the cost of resources used for an activity having regard to the appropriate quality.
Effectiveness	The extent to which actual program outcomes are achieving program objectives.
Efficiency	The extent to which program outputs are maximised for a given level of inputs.
Incentives	Financial or other mechanisms to encourage compliance and/or improve performance.
Inputs	Human, financial and capital resources used to produce program outputs.
Management information system	A system that manages program information to monitor the cost-effective and efficient achievement of program goals and account to Parliament.
Operational objectives	Concise, unambiguous, realistic, outcome-oriented statements of what the program, sub-program or other element of the program structure aims to

	achieve. These must be stated in a way which clearly communicates what is to be achieved and measured.
Outcomes	All the impacts or consequences of the program beyond its direct output (outcomes are often delayed or long term and they may be intended or unanticipated. Outcomes should be distinguished from outputs, for example, the output of a training program may be a skills training course, while the (desired) outcome is employment. As specific outcomes may result from multiple factors, causal relationships between a program and outcomes must be demonstrated before they can be claimed as a program outcomes).
Output	Products or services which are produced and delivered by a program.
Performance indicators	Means by which the achievement of program goals or intended outcomes will be measured.
Performance targets/ milestones	Quantifiable performance levels or changes in level to be attained at a specified future date. Performance targets and milestones should be set for each performance indicator.
Program goals	High-level statement of the desired results or outcomes of the program.
Resources	Includes financial, human and capital resources.
Running costs	The expenditure of funds appropriated by Parliament or allocated by Ministers to the day-to-day administration of Commonwealth departments and agencies. Running costs include salaries, property operating expenses and other administration costs.
Sanctions	Financial and other mechanisms to discourage non-compliance and/or sub-standard performance.
Statement of expenditure	Document summarising expenditure provided to the Commonwealth by the funds recipient(s).
Unspent funds	For the purposes of this survey, unspent funds represent those SPP funds that remain unspent at year-end. Unspent funds can be either committed funds or uncommitted funds.
Workload analysis	Examination of processes involved in turning inputs into outputs.

Appendix 1

Performance Information—Lessons Learned

The following is a brief summary of some of the lessons gained from the experience of the ANAO and DOFA in developing the Performance Information Better Practice Guide¹⁶⁵ in consultation with other public sector agencies:

- The performance information should relate to the objective of the program and enable an assessment as to whether or to what extent the objective is being achieved. It should also enable an assessment of the efficiency and effectiveness of the strategies and initiatives used to achieve these outcomes.
- Objectives should be clearly stated and the performance information should measure all parts of the objective.
- Performance indicators (which will help provide the performance information referred to above) should be developed early in the life cycle of the program or project. These indicators may then need to be refined in the light of experience with the program or as a result of evaluations or other similar reviews.
- Performance indicators should assist managers in their decision-making as well as satisfy external accountability requirements.
- A useful tool for the development of performance information is the process of developing and analysing the underlying logic of programs. Program logic helps to clarify program objectives and to identify and describe the major program elements (inputs, processes, outputs, outcomes) and the expected cause-effect relationships between program processes and the outcomes they are meant to produce
- Collection of information should not be confined to those items which are 'easy to measure' as this will not provide a comprehensive picture of performance. Also, given the general human tendency towards 'what gets measured gets done', the things that are not easy to measure (but which may be important) may not get done.
- Performance information should be differentiated appropriately at different levels of an organisation or program. High level strategic performance information for a program is unlikely to be directly relevant or useful to a work unit at the service delivery point. The performance information hierarchy should correspond to the break-down of objectives/outcomes by level of responsibility and control. It is

¹⁶⁵ *Op. cit.*, ANAO and Department of Finance (1996), pp. 37–39.

important that agencies do not collect large volumes of performance data which is not cost effective; only key indicators should be established and measured for each level of responsibility.

- The performance information should be balanced, that is, it should encompass a range of measures relating to program aspects such as inputs, outputs, outcomes, quality client service delivery and access and equity issues and measure performance against the key criteria. Often, information will be biased towards measures of process or activities, at the expense of assessments of effectiveness. A program might have extensive information on activities and efficiency (e.g. time and cost to process claims) but nothing on quality. Information might also be biased to the short term at the expense of long term issues. Any of these biases will leave gaps in performance information which may not be understood by management or by external parties.
- Performance information should be robust in that it should measure something that is significant and it should be reliable and valid.
- The appropriate level of disaggregation of information should be identified in order for it to be useful (for example, is the information needed by client group, geographic location or organisational unit).
- Performance should be related to client expectations or requirements. The performance information regime should include a structured approach to identifying client needs which can vary widely, for example program recipients and the Parliament.
- A systematic approach to comparisons of performance should be undertaken. A framework for use of standards, targets, benchmarks and comparisons over time is necessary if performance information is to be useful both for performance improvement and for accountability. Also, where changes are required to the performance information collected, adequate links should be established to allow comparisons over time.
- The performance indicators, targets and standards which are developed should motivate appropriate behaviour in achieving the desired outcomes and not encourage staff to adopt inefficient or ineffective practices which allow them to achieve short-term targets, but endanger the achievement of the long term goals.
- Performance should be reported honestly and presented effectively: reports, particularly annual reports should be a balanced and candid account of both successes and shortcomings. Explanations and interpretation should be provided, the basis of statistics should be explained and the reports should be comprehensible to the average reader.

- Performance information should be designed and used to actually improve performance (that is, not used solely for external accountability or control), otherwise it is likely to present a distorted and/or less than complete picture of performance. Similarly, if a 'separate set' of performance information is used for external accountability purposes, there may be a tendency to be biased towards a positive view of performance.
- Performance measures should not be imposed on a work unit with no opportunity for input. where measures are imposed, staff are unlikely to use the information to improve performance, often because it does not take into account the realities of the work actually being done.
- Performance information and its functions should be well understood at all levels. Management should appreciate the need to invest in performance information design, plan for performance data needs, set priorities, ensure timeliness and usefulness and achieve staff ownership and commitment.

Appendix 2

Figures, Tables and Case Studies

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Appendix 3

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Appendix 4

List of SPPs examined in this audit

Department	SPP	SPP Code	97/98 Budget (\$'000)
A-Gs	Legal Aid	A1	91 736
A-Gs	Film and Literature Classification	A2	609
DETYA	Higher Education	E1	}3 966 915
DETYA	Research at Universities	E2	
DETYA	State Contribution to Higher Education Superannuation	E3	(51 106)
DETYA	Advanced English for Migrants Program	E4	5 261
DETYA	Government Schools	E5	1 283 530
DETYA	Non-Government Schools	E6	2 108 415
DETYA	Targeted Programs—Government Schools and Joint Initiatives	E7	259 497
DETYA	Targeted Programs—Non-Government Schools	E8	119 784
DETYA	Indigenous Education Strategic Initiatives Program	E9	133 467
DETYA	Employment Strategies for Indigenous Australians	E10	2 379
DETYA	Access Training	E11	5 000
DoEH	Management of World Heritage Properties	N1	10 042
DoEH	Queensland Sugar Coast Environment Rescue Package	N2	2 000
DISR	AusIndustry Enterprise Development Program	I1	16 785
DISR	Technology Support Centres Program	I2	3 827
DISR	AusIndustry Textile, Clothing and Footwear Enterprise Development Program	I3	2 450
DISR	Payments in lieu of Royalties (formerly with DPIE)	I4	226 046
DOFA	Natural Disaster Relief	F1	8 619
DTRS	<i>Interstate Road Transport Act 1985</i> Payments	T1	20 250
DTRS	National Highway System and Roads of National Importance	T2	817 321
DTRS	Road Safety Black Spot Program	T3	25 326
DTRS	Redevelopment of the Inveresk Rail Yard Site in Launceston	T4	3 621
DTRS	Financial Assistance—Local Government and General Assistance	T5	834 789
DTRS	ACT Assistance for Water and Sewerage	T6	7 878
DTRS	ACT National Capital Influences on the Cost of Providing Municipal Services	T7	19 596
DTRS	Northern Territory—Indigenous Health Infrastructure	T8	10 000
DTRS	Financial Assistance—Local Government Identified Road Funding	T9	370 420
AFFA	Exceptional Circumstances (EC) Administration	P1	378

Department	SPP	SPP Code	97/98 Budget (\$'000)
AFFA	Remote Sensing of Landcover	P2	717
AFFA	Tasmania Wheat Freight Subsidy	P3	1 200
AFFA	Bovine Brucellosis Tuberculosis	P4	6 051
AFFA	Wildlife and Exotic Diseases Preparedness Program	P5	251
AFFA	Rural Adjustment Scheme	P6	98 777
AFFA	Forestry Industry Structural Adjustment Package	P7	8 914
AFFA	Sugar Industry Infrastructure	P8	2 787
FACS	Compensation for Extension of Fringe Benefits to Pensioners and Older Longterm Allowees & Beneficiaries	S1	145 112
FACS	Crisis Accommodation Assistance (part of CSHA)	S2	39 655
FACS	Housing Assistance for Aborigines (part of CSHA)	S3	91 000
FACS	Community Housing (part of CSHA)	S4	63 990
FACS	Commonwealth-State Housing Agreement (CSHA) Block Assistance/Base Funding	S5	630 453
FACS	Assistance for Housing	S6	5 500
FACS	Social Housing Subsidy Program	S7	2 130
FACS	Disability Services—CSDA (formerly with DHFS)	S8	316 867
FACS	Childrens' Services ^(a) (formerly with DHFS)	S9 & S10	36 143
FACS	Supported Accommodation Assistance Program (formerly with DHFS)	S11	127 302
DVA	Transfer of Repatriation General Hospitals	V1	6 036
Treasury	Debt Redemption Assistance	\$1	62 300
Treasury	Compensation—Companies Regulation	\$2	132 551
Treasury	Debt Retirement Reserve Trust Account	\$3	10 395
DIMA	Supervision and Welfare Support for Humanitarian Minors without Parents in Australia and their Caregivers	M1	116
HREOC	Human Rights Cooperative Payment	HR	912
Health	Health Program Grants—Pathology Services	H1	48 955
Health	Health Program Grants—Magnetic Resonance Imaging	H2	19 584
Health	Highly Specialised Drug Program	H3	187 348
Health	Hospital Funding/Base Medicare	H4	4 100 145
Health	Other Medicare—Bonus Payments for Improved Public Access	H5)924 175
Health	Other Medicare—Palliative Care	H6	
Health	Other Medicare—AIDS Hospital Treatment	H7	
Health	Other Medicare—National Mental Health	H8	
Health	Broadbanded Health Services Program - Transfer of pathology labs ^(b)	H9	32 902

Department	SPP	SPP Code	97/98 Budget (\$'000)
Health	Broadbanded Health Services Program—Blood Transfusion Services	H10	49 500
Health	Broadbanded Health Services Program—Artificial Limbs Scheme	H11	13 220
Health	National Public Health—Breast Screen Australia	H12	}113 787
Health	National Public Health—National Drug Strategy	H13	
Health	National Childhood Immunisation Program	H14	28 352
Health	Aged Care Assessment	H15	39 781
Health	Home and Community Care	H16	476 329
DOCITA	Payment to Tasmania for the Antarctic and Southern Ocean Centre	C1	nil ^(c)
Total			18 128 072

- (a) For the purposes of the survey, only the Child Care Assistance and Operational Subsidy components in SA were included.
- (b) For the purposes of the survey, only the Qld component was included.
- (c) This SPP is no longer funded after \$1 million was paid in 1996–97.

Appendix 5

List of organisations that made submissions

ACT AusIndustry, Department of Business, the Arts, Sport and Tourism,
ACT

ACT Department of Health and Community Care

Agriculture Western Australia

Alcohol and other Drugs Council of Australia

AusIndustry, Department of State and Regional Development, NSW

Australian Association of Christian Schools

Australian Cancer Society

Australian Catholic Health Care Association

Australian Council of State School Organisations

Australian Institute of Radiography

Australian Medical Association Limited

Australian Medical Association, Queensland Branch

Australian Pharmaceutical Manufacturers Association Inc.

Australian Psychiatric Disability Coalition Inc.

Australian Red Cross Blood Service

Australian Sugar Milling Council

Australian Vice Chancellors' Committee

Batchelor College

Business Centre, Department of Industry and Trade, SA

Canberra Institute of Technology

Catholic Education Commission of Victoria

Catholic Education Office, Archdiocese of Canberra and Goulburn

Catholic Education Office, Diocese of Darwin

Catholic Education Office, SA

Catholic Education Office, WA

Charles Sturt University

Chief Minister's Department, ACT

Clinical Trials and Treatments Advisory Committee

Deakin University

Department of Asian Relations, Trade and Industry, NT

Department of Commerce and Trade, WA

Department of Community and Health Services, TAS

Department of Education and Training, ACT

Department of Education, Training and Employment, SA

Department of Environment, QLD
 Department of Families, Youth and Community Care, QLD
 Department of Human Services, SA
 Department of Land Administration, WA
 Department of Lands, Planning and Environment, NT
 Department of Minerals and Energy, WA
 Department of Natural Resources, QLD
 Department of Premier and Cabinet, SA
 Department of Tourism, Small Business and Industry, QLD
 Department of Training and Industrial Relations, QLD
 Department of Transport and Works, NT
 Department of Treasury and Finance, TAS
 Department of Urban Affairs and Planning, NSW
 Department of Vocational Education and Training, TAS
 Disability Services Commission, WA
 Equal Opportunity Commission, WA
 Family and Children's Services, WA
 Gribbles Pathology
 Group Training Australia
 HACC State Advisory Committee
 Health Department of Western Australia
 Infrastructure Roads and Transport, ACT
 Kathleen Cuninghame Foundation
 Land and Water Conservation, NSW
 Law Council of Australia
 Legal Aid Office, ACT
 Legal Aid, QLD
 Legal Aid, VIC
 Main Roads, Western Australia
 Murdoch University
 National Community Housing Forum
 National Legal Aid
 National Youth Coalition for Housing
 New South Wales Roads and Traffic Authority
 Northern Territory Employment and Training Authority
 NSW Department of Community Services
 Office of Training and Further Education, VIC
 Parks and Wildlife Commission of the Northern Territory

Pork Council of Australia Limited
Primary Industries and Resources, SA
Queensland Catholic Education Commission
Queensland Health
Queensland Police Service
Queensland Rural Adjustment Authority
Queensland Treasury
Queensland University of Technology
Returned Services League of Australia, NSW Branch
Returned Services League of Australia, SA Branch
Returned Services League of Australia, Victorian Branch
Road Transport Forum
Royal Australasian College of Surgeons
Royal College of Pathologists of Australasia
Rural Finance Corporation, VIC
Society of Hospital Pharmacists of Australia
South Australian Treasury
Southern Regional Cemetery Trust, TAS
State Housing Commission, WA
Surveyor-General's Department, NSW
Swinburne University of Technology
Tasmania Police
Tasmanian Commercial Egg Producers Association
Tasmanian Farmers and Graziers Association
Tasmanian Grain Elevators Board
Territory Health Services, NT
Transport SA
Treasury, WA
University of Adelaide
University of New England
University of New South Wales
University of Queensland
University of South Australia
University of Sydney
University of Tasmania
VicRoads
Western Australian Department of Training

Appendix 6

SPPs paid in-advance: actual payment schedule vs ANAO model

SPP name	1996–97 funding	Current payment schedule	Suggested ANAO payment model (refer Table 26)	Does SPP reflect ANAO model?	Estimated savings during 1996–97 ^(a)	Restrictions to changing the frequency of payments (\$'000)	Agreement/ Legislation expiry date
Higher Education and Research (2 SPPs)	5 109 302	bi-monthly in-advance	weekly in-advance	NO	3 495	Payment schedule included in legislation	end of 1999
Medicare—Base Hospital	3 971 365	weekly in-advance	weekly in-advance	YES	nil		
Schools—General and Targeted Assistance (4 SPPs)	3 361 673	mainly monthly or quarterly in advance	primarily weekly in-advance	NO	26 080	Payment schedule included in legislation and agreements with States and Territories	end of 2000
Local Government—Financial Assistance	1 216 415	50% quarterly in-advance, 50% reimbursement	weekly in-advance	YES	nil		
Commonwealth-State Housing Agreement (4 SPPs)	926 029	monthly in-advance	fortnightly in-advance	NO	969	Payment schedule included in legislation	end of 1998-99
National Highway System and Roads of National Importance	798 674	monthly in-advance	fortnightly in-advance	NO	828	none	no sunset date
Medicare—Bonus Payments	686 495	75% weekly in-advance, 25% at milestones	fortnightly in-advance	YES	nil		
Disability Services (CSDA)	306 305	monthly in-advance	monthly in-advance	YES	nil		
Highly Specialised Drug Program	142 854	monthly in-advance	monthly in-advance	YES	nil		
Legal Aid	128 303	quarterly in-advance ^(b)	monthly in-advance	NO	717	Payment schedule included in agreements with States and Territories	end of 2000-01
Supported Accommodation Assistance Program	127 277	monthly in-advance	monthly in-advance	YES	nil		
Rural Adjustment Scheme	105 289	monthly in-advance	monthly in-advance	YES	nil		
Total: SPPs paid in advance	\$16 879 981				\$32 089		
Total: Eight SPPs at ANAO model	\$6 541 449						
Total: Twelve SPPs not at ANAO model	\$10 338 532						

(a) Savings based on interest rates current during 1996–97. For all SPPs except Schools—General and Targeted Assistance, savings have been calculated on **actual payments**. As the ANAO was unable to get all payment details for the Schools—General and Targeted Assistance SPPs, savings have been calculated on **forecasted payments**.

(b) From 1997–98.

Appendix 7

Regression and Correlation Analysis

Determinants of Administration Costs for SPPs with Performance Information Requirements

Exploratory regression and correlation analysis was conducted to develop a statistical model that can be used to predict the cost of administering SPPs with performance information requirements based on other variables and to measure the strength of associations between variables.¹⁶⁶ On the basis of a general-specific methodology, a preferred model was derived by removing statistically insignificant variables. All variables (which were gathered from agency responses to the SPP survey—except for SPP funding) that were incorporated into the first regression are as follows:

Dependent Variable:	Cost of administering each SPP
Independent Variables:	SPP funding
	Q4(d) Performance Indicators for the SPP
	Q4(h) Performance data requirements
	Q6(a) Performance Indicators can measure 'Effectiveness'
	Q6(b) Performance Indicators can measure 'Efficiency'
	Q6(c) Performance Indicators can measure 'Quality'
	Q6(d) Performance Indicators can measure 'Access and Equity'
	Q46(a) Performance data allows monitoring of achievement of SPP goals
	Q80(a) Achievement of SPP outcomes
	Q80(b) Achievement of SPP outputs

Regression Results

$$\textit{Preferred Model: } \log_e A = a_0 + b_0 \log_e F + b_1 \textit{DEFF} + b_2 \textit{DAEQ}$$

where: A—1996–97 SPP Administration Costs (\$)
F—1996–97 SPP funding (\$)
DEFF—Efficiency measure dummy (takes a value of 1 for SPPs with efficiency indicators fully developed and a value of 0 for other SPPs)
DAEQ—Access and Equity measure dummy (takes a value of 1 for SPPs with access and equity indicators fully or partially developed and a value of 0 for other SPPs)

¹⁶⁶ The thirteen SPPs with little or no performance information requirements were excluded from the regression analysis.

<i>Parameter</i>	<i>Estimate</i>	<i>Standard</i>	<i>t-value</i>	<i>95% confidence interval</i>
a_0	2.206	1.708	1.291	
b_0	0.737	0.107	6.871*	(0.517, 0.957)
b_1	-1.176	0.456	-2.580*	(-2.115, -0.237)
b_2	-1.429	0.684	-2.089*	(-2.838, -0.020)

* statistically significant at 95% level

$n = 29$; $R^2 = 0.856$; Adjusted $R^2 = 0.700$

Transformation of Estimated Model

$$e^{\log_e A} = e^{(a_0 + b_0 \log_e F + b_1 DEFF + b_2 DAEQ)}$$

$$A = e a_0 e^{b_0 \log_e F} e^{b_1 DEFF} e^{b_2 DAEQ}$$

Reduction in A due to DEFF and DAEQ

Variable	Effect	95% confidence interval
DEFF	$1 - e^{b_1}$	(0.211, 0.879)
DAEQ	$1 - e^{b_2}$	(0.020, 0.941)

Correlation Analysis

Correlation Matrix

	<i>A</i>	<i>F</i>	<i>DEFF</i>	<i>DAEQ</i>
<i>A</i>	1	0.797*	-0.428*	0.215
<i>F</i>	0.797*	1	-0.211	0.400*
<i>DEFF</i>	-0.428*	-0.211	1	0.092
<i>DAEQ</i>	0.215	0.400*	0.092	1

* Statistically significant at 5% level

Explanation of Regression and Correlation Analysis Results

There is a statistical correlation between the cost of administering SPPs with performance information requirements and:

- the amount of SPP funding;
- whether the SPP has performance indicators measuring efficiency; and
- whether the SPP has performance indicators relating to access and equity.

Taken together, these factors explain 70 per cent of the variation in administration costs across these SPPs.

Other things being equal, a 10 per cent increase in SPP program costs is associated with between a 5.2 and 9.6 per cent increase in SPP administration costs. This implies the existence of economies of scale so that an SPP with twice the level of funding tends to have less than twice the level of SPP administration costs.

The presence of efficiency indicators is associated with lower SPP administration costs. Other things being equal, the regression results suggest that an SPP with fully developed efficiency indicators will tend to have SPP administration costs that are at least 21.1 per cent lower than an SPP with no or only partially developed efficiency indicators.

The presence of access and equity indicators also tends to be associated with lower SPP administration costs, although the relatively large standard error on the parameter estimate (large relative to the estimate) does not enable much precision in estimating the size of the effect. Other things being equal, the regression results suggest that an SPP with access and equity indicators will tend to have SPP administration costs that are at least 2.0 per cent lower than an SPP with no such indicators. Despite this, it is unlikely that access and equity indicators directly contribute to administrative efficiency. This result is more likely to be reflecting a more indirect effect whereby, for example, SPPs with these indicators also have better efficiency indicators.

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