

Audit Report No.45 2011–12

Administration of the Health and Hospitals Fund

Introduction

- 3.1 The Health and Hospitals Fund (HHF) was one of three funds established by the Commonwealth Government in the 2008–09 Budget, and given effect through the *Nation-building Funds Act 2008*. The HHF objectives, while not replacing state and territory effort, were to:
- invest in major infrastructure programs that would make significant progress towards achieving the Commonwealth’s health reform targets; and
 - make strategic investments in the health system that would underpin major improvements in efficiency, access or outcomes of health care.¹
- 3.2 All infrastructure proposals for funding under the HHF were to be assessed by an Advisory Board appointed by the Health Minister. The Advisory Board was to consist of persons ‘with substantial experience or knowledge’ in a field relevant to its function. The Board included the Secretary of the Department of Health and Ageing (DoHA) and a range of other individuals, including a person with expertise in economics; a health practitioner; a clinician; a person with research expertise; an eminent

1 ANAO Audit Report No.45 2011–12, pp. 34, 35.

community or business leader; and a person with expertise in infrastructure financing.²

- 3.3 The Health Minister was responsible for formulating the evaluation criteria to be applied by the Advisory Board in its assessment of applications. Of the projects assessed by the Advisory Board as meeting the evaluation criteria, the Health Minister would put forward selected projects to the Government for policy approval.³
- 3.4 DoHA was responsible for administering the HHF. This included providing advice to the Health Minister; providing administrative support to the Advisory Board; and administering HHF grants. DoHA also provided advice on eligibility, as well as background and contextual information to the Advisory Board during the proposal assessment processes.⁴
- 3.5 Four HHF funding rounds have taken place to date:
- The first round, announced in May 2009, totalled \$2.61 billion and included identified 'shovel ready' projects in contribution to the Government's economic stimulus strategy in response to the global financial crisis.
 - The second round, announced in early 2010, totalled \$540 million and targeted regional cancer centres.
 - The third round, announced in May 2011, totalled \$1.33 billion and focused on regional infrastructure, in response to agreements with the independent members of parliament.
 - The fourth round, announced in May 2012, totalled \$475 million and also targeted regional infrastructure.⁵
- 3.6 Funds provided to states and territories under the HHF were not considered to be grants under financial management regulations. Rather, these funds were regarded as National Partnership project payments, subject to the terms and conditions set out in implementation plans under the National Partnership Agreement on Health Infrastructure. HHF funds provided to other organisations, however, were considered to be grants and therefore were subject to the Commonwealth Grant Guidelines.⁶

2 ANAO Audit Report No.45 2011-12, pp. 35, 51-52.

3 ANAO Audit Report No.45 2011-12, pp. 35-37.

4 ANAO Audit Report No.45 2011-12, p. 38.

5 ANAO Audit Report No.45 2011-12, pp. 14-15.

6 ANAO Audit Report No.45 2011-12, p. 39.

The ANAO audit

Audit objective and scope⁷

- 3.7 The audit objective was to assess the effectiveness of DoHA's administration in supporting the creation and development of health infrastructure from the HHF, including DoHA's support for the Health Minister and the HHF Advisory Board.
- 3.8 To form its opinion, the Australian National Audit Office (ANAO) used the following criteria drawn from the requirements and principles of the Commonwealth Grant Guidelines and the ANAO better practice guide on grants administration:
- DoHA's administration of the planning and conduct of the funding rounds effectively supports the purpose of the HHF;
 - DoHA provides appropriate support in the selection of projects for funding consistent with the requirements of the *Nation-building Funds Act 2008* and the *Financial Management and Accountability Act 1997* (FMA Act);
 - DoHA's negotiation and management of funding agreements is effective in delivering projects and outcomes from projects into the future; and
 - DoHA develops, collects and assesses output and outcome indicators of HHF performance and reports on them.
- 3.9 The audit focused on DoHA's role in the administration of the HHF relating to Rounds 1 to 3. This included the advice and support provided by DoHA: to the Health Minister in directing the work of the Advisory Board; and to the Board and the Health Minister in the assessment and selection of projects for funding.

Overall audit conclusion

- 3.10 The ANAO concluded that DoHA had generally established effective administrative processes to support the development of HHF funded infrastructure; established sound arrangements to support the HHF Advisory Board; and generally provided effective support to the Health

7 ANAO Audit Report No.45 2011-12, p. 40.

Minister, although had 'at times adopted a relatively narrow view of its role'.⁸

- 3.11 The ANAO found that the department's administrative and support arrangements had improved over time. The report noted that these improvements had been made in the context of timing pressures caused by the first and third HHF rounds being expedited by the Government, and significant resource constraints within DoHA.⁹ These pressures were, however, found to have had some impact on the program's administration:

The limited time and resources available to DoHA to establish processes for Round 1 militated against the adoption of a more structured approach to the planning and conduct of that round. At the local and state level, DoHA relied on the infrastructure needs and gaps identified by stand and territory governments – a 'bottom up' approach. While the focus of the round at the national level was decided by government, with extra time and resources devoted to the administration of the HHF the department could have utilised a more formal 'top down' strategic planning approach, including independently assessing health infrastructure needs and gaps against government priorities.¹⁰

- 3.12 Despite the department's positive contribution to the HHF's administration and the advancement of projects, the ANAO identified scope for the department to better assist key decision-makers, particularly the Health Minister, in discharging their responsibilities.¹¹
- 3.13 The ANAO noted that the Health Minister had been provided with a significant number of eligible projects with a value, if agreed, well in excess of the funds available in the HHF. However, the Health Minister did not receive further advice – such as a merit list or scores for individual projects against the evaluation criteria – to support her assessment of the relative merits of the eligible applications. The ANAO described DoHA's claim that there was no requirement for the Board or the department to rank projects for the Government as reflecting 'a relatively narrow view of responsibilities in grants administration'.¹²

8 ANAO Audit Report No.45 2011-12, p. 17.

9 ANAO Audit Report No.45 2011-12, pp. 17-18.

10 ANAO Audit Report No.45 2011-12, p. 63.

11 ANAO Audit Report No.45 2011-12, p. 18.

12 ANAO Audit Report No.45 2011-12, p. 19.

- 3.14 The ANAO also identified scope for DoHA to expand its advice to the Minister and financial approvers on the financial implications of proposed early payments for HHF projects. For the first three HHF rounds, 14 projects were provided with payments in advance of project requirements, and the ANAO estimated that the net present value of interest foregone by making these payments in advance of requirements was \$145 million.¹³
- 3.15 While noting that HHF funded projects were intended to result in improvements to health outcomes, the ANAO reported that DoHA plans to implement an evaluation approach that focuses on progress against construction milestones. The ANAO suggested that while this approach was reasonable, it would be challenging to measure any tangible improvements to health outcomes at a project level. There would accordingly be benefit in further developing the evaluation strategy to determine the program's overall contribution to improving health outcomes.¹⁴

ANAO recommendations

- 3.16 The ANAO made three recommendations intended to improve the effectiveness of DoHA's administration of the HHF.¹⁵

Table 3.1 ANAO recommendations, Audit Report No.45 2011–12

1.	<p>To maximise transparency in decision-making, the ANAO recommends that, for all future HHF assessment and selection processes, the Department of Health and Ageing:</p> <ul style="list-style-type: none"> a) includes all significant aspects of the selection process in funding guidelines; and b) advises the Health Minister on priorities for funding proposals assessed as eligible by the HHF Advisory Board. <p>DoHA Response: <i>Agreed</i></p>
2.	<p>To enable decision-makers to form a considered view on the proper use of Commonwealth resources to fund Health and Hospitals Fund projects, the ANAO recommends that the Department of Health and Ageing provides advice to:</p> <ul style="list-style-type: none"> a) the Health Minister on the risks, if any, and opportunity costs of making payments to funding recipients in advance of need; and b) the FMA Regulation 9 approver on government decisions, if any, relating to payments in advance of need and the implications of those decisions for spending proposals requiring consideration under FMA Regulation 9. <p>DoHA Response: <i>Agreed</i></p>

13 ANAO Audit Report No.45 2011–12, p. 20.

14 ANAO Audit Report No.45 2011–12, pp. 21–22.

15 ANAO Audit Report No.45 2011–12, p. 22.

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3. To improve the transparency and accountability of reporting on the outcomes achieved through HHF funding, the ANAO recommends that the Department of Health and Ageing further develops its evaluation strategy to determine the program's overall contribution to improving health outcomes, in addition to measuring progress against project milestones.

DoHA Response: *Agreed*

The Committee's review

- 3.17 The Committee conducted its review of the audit report through written correspondence.
- 3.18 The Committee sent DoHA eight questions in writing. DoHA's response provided the Committee with evidence on the following matters:
- The implementation of ANAO recommendations
 - Communications between the Commonwealth and states.

Implementation of ANAO recommendations

Resource availability

- 3.19 DoHA's response to the audit report noted that the department was not allocated additional resources for the administration of the HHF until the 2011-12 Budget, when funds were reallocated from savings made as a result of a strategic review of the portfolio. Although supporting the ANAO's recommendations, the response said that the department would continue to improve and strengthen HHF administration 'if resources can be identified to do this, taking into account a constrained resources environment and other competing priorities'.¹⁶
- 3.20 In a question to the department, the Committee sought to clarify this response, asking whether there had been any progress in finding additional resources and whether the 'resource availability' caveat applied to all three ANAO recommendations.
- 3.21 The department responded that HHF capital works projects were being administered 'within existing resources', supported by expert advice from the Centre of Excellence for Capital Works, which had been established to advise on establishing construction milestones, appropriate milestone
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payments and monitoring construction progress. However, the department recognised the need to 'consider additional resources to both manage the funding round and implement the audit recommendations' should a further HHF funding round be announced.¹⁷

- 3.22 DoHA advised that its 'resource availability' caveat applied primarily to implementing the ANAO's Recommendation 3 (regarding the HHF's evaluation), but would also apply to Recommendation 1 (regarding transparency in the decision-making process) if further funding rounds were held.¹⁸

Timing of implementation

- 3.23 Given the timing of the audit report's finalisation and the conduct of the fourth HHF round, the Committee asked DoHA to advise whether the ANAO's preliminary findings had been taken into account in Round 4.
- 3.24 The department advised that it had received the ANAO's preliminary findings in relation to the first three HFF rounds on 21 March 2012. The HHF Advisory Board's advice to the Health Minister (dated 27 February 2012), and the department's information to the Minister relating to the Board's advice (dated 28 February 2012), both preceded the departments receipt of the ANAO's preliminary findings.¹⁹

Implementation of ANAO Recommendation 1

- 3.25 The Committee asked the department how it was implementing the ANAO's recommendation that it advise the Health Minister on the priorities of eligible funding proposals and include all significant aspects of the selection process in funding guidelines.
- 3.26 The department's response stated that it would 'give consideration to the implementation of the recommendation' if the Government announced a further HHF funding round.²⁰

Implementation of ANAO Recommendation 2

- 3.27 In the context of the ANAO's recommendation that DoHA improve its advice in relation to making payments in advance of need, the Committee asked the department what steps it was taking to ensure that future advice

17 DoHA, *Submission 8*, p. [1].

18 DoHA, *Submission 8*, p. [1].

19 DoHA, *Submission 8*, p. [2].

20 DoHA, *Submission 8*, p. [2].

regarding pre-payments under the HHF, and other similar programs, would take the full financial implications into account.

- 3.28 The department replied that its internal procedures for HHF projects, and other similar programs, required an executed funding agreement with payments linked to milestones. The department said that advice from the Centre of Excellence for Capital Works on construction milestones and appropriate milestone payments ensured that delegates were 'fully informed of the payment conditions for each project and of the importance of providing advice to the Minister on the financial implications of making advance payments'.²¹

Implementation of ANAO Recommendation 3

- 3.29 The Committee asked DoHA how it was implementing the ANAO's recommendation to include, in its evaluation strategy for the HHR, an assessment of the program's overall contribution to improving health outcomes. Additionally, the Committee asked when the first evaluations were likely to take place.
- 3.30 The department informed the Committee that it had 'commenced development of an evaluation framework'. The framework would be 'progressed through the 2012-13 financial year' and the outcomes of the evaluation would be available in 2013.²²

Communications between the Commonwealth and states

- 3.31 The Committee asked DoHA for the chronology of communications between the Commonwealth and states in respect to the HHF. The department advised that 'to compile the requested information would involve a significant resource effort that the department is not currently in a position to undertake'.²³
- 3.32 In addition, in relation to the nomination of projects, the Committee asked DoHA whether the Commonwealth had sought further information on:
- any hospitals offered by states for approval through the HHF; or
 - any hospitals not offered by states for approval.

The Committee requested details of which states, which hospitals and at what moment in the grants program.

21 DoHA, *Submission 8*, p. [2].

22 DoHA, *Submission 8*, p. [3].

23 DoHA, *Submission 8*, p. [3].

- 3.33 In response to both questions, the department advised that there had been 669 applications received across the four HHF funding rounds, and that it had sought information on some hospital applications at the request of the Advisory Board.²⁴
- 3.34 However, the department indicated that it could not disclose the requested information as it 'concerns the business and commercial affairs of the states' and its disclosure 'may impact on the Commonwealth's future dealings with the states'. In relation to non-government organisations, the department similarly said that it was 'not in a position to release this information' as it concerned 'the business and commercial affairs of those organisations'.²⁵

Committee comment

- 3.35 The Committee welcomes the Auditor-General's report, and notes that the findings were positive overall regarding DoHA's role in administering the HHF.
- 3.36 It is concerning that DoHA was required to implement such a large program as the HHF for approximately three years before being provided with additional funding, particularly given that the implementation of Rounds 1 and 3 were fast-tracked. Under the circumstances, DoHA's performance in the administration of the HHF was commendable.
- 3.37 There are, however, some areas of concern identified in the report and in the department's response to the Committee's questions that are worthy of comment.
- 3.38 The Committee's primary aim during its review of the audit report was to ensure that the Auditor-General's recommendations were being effectively implemented by the department. Additionally, concerns raised by constituents of some Committee members indicate a level of dissatisfaction in the community about the transparency of the process used to select projects for HHF funding. Accordingly, the Committee focused its questions on how the department was implementing the ANAO's recommendations to improve the process in future rounds, and on clarifying the nature of the department's activities in liaising with

24 DoHA, *Submission 8*, p. [3].

25 DoHA, *Submission 8*, p. [3].

states and territories on the projects proposed – and not proposed – for funding.

- 3.39 The response received from the department did little to ease concerns about the level of transparency in HHF funding. Most of the department's answers to the Committee's questions lacked detail and clarity, and questions about communications between the Commonwealth and states were left almost completely unanswered. Overall, DoHA's response was unhelpful and demonstrated a lack of respect for the Committee's important role in scrutinising, on behalf of the Parliament, the Government's use of public money. This was particularly unacceptable given the department took almost two months to respond to the questions.
- 3.40 DoHA's initial response to the audit report indicated that it supported the ANAO's recommendations, but in the context of a 'constrained resource environment and other competing priorities'. The department's response to the Committee's questions seemed to confirm that the department did not view implementing the ANAO's recommendations as a high priority, and that a lack of resources may prevent full implementation.
- 3.41 The Committee was particularly concerned to hear that this caveat placed on the department's support extended to ANAO Recommendation 1 – on providing more detail in funding guidelines and in its advice to the Minister – for which the additional resource effort would presumably be small. Insufficient advice being provided to Ministers responsible for approving grants is a recurring issue that has been raised in previous JCPAA reviews.²⁶
- 3.42 DoHA's response to the Committee's specific question on the implementation of ANAO Recommendation 1 stated only that the department would 'give consideration' to the implementation of the recommendation – should the Government announce a further HHF funding round.
- 3.43 The importance of providing comprehensive information in funding guidelines and delivering advice to decision makers on the relative merits of proposals cannot be understated. The fact that the department would only 'give consideration' to these concepts seems a poor approach to public administration.
- 3.44 Although the audit under review was limited specifically to the HHF, which does not currently have another round planned, the Committee

26 See, for example, JCPAA *Report 430: Review of Auditor-General's Reports Nos. 47 (2010-11) to 9 (2011-12) and Reports Nos. 10 to 23 (2011-12)*, May 2012, p. 55.

considers a more comprehensive response to its question and to the ANAO's recommendation was warranted. For example, the department had the chance to inform the Committee of how Recommendation 1 would be applied to other similar grants programs managed by DoHA, or whether DoHA's internal guidance was being updated in light of the recommendation. Given the absence of this information, the Committee assumes that this is not currently occurring, and an opportunity for the department to improve its grants program framework is being missed. The Committee therefore recommends:

Recommendation 6

That the Department of Health and Ageing identify and action ways to apply the lessons of ANAO Recommendation 1 to its standard practices and procedures for all current and future grants programs.

- 3.45 The Committee similarly found the department's response to its question on ANAO Recommendation 3 – on improving the HHF evaluation strategy – to be lacking. The response provided some basic timeline information, but no information on how an assessment of the program's overall contribution to improving health outcomes would be included in the evaluation strategy.
- 3.46 The Committee acknowledges that assessing a single program's contribution to a goal as large as improving national health outcomes is a complex task. Such an evaluation will unlikely be able to use a simple numeric performance indicator, and instead with rely on partial information and significant judgement. However, if such large goals are to be included in the objectives of a program an attempt to evaluate progress must be made.
- 3.47 At a minimum, the department's response to the Committee's questioning could have outlined the approach being taken to developing the evaluation framework; the basic features expected to be included; and how the ANAO's recommendation was likely to be incorporated. The Committee was left with inadequate information on what progress, if any, had been made to date in implementing the recommendation. The Committee therefore recommends:

Recommendation 7

That, within 6 months, the Department of Health and Ageing provide the Committee with an update on the progress of its evaluation of the Health and Hospitals Fund. The update should include how the department's evaluation framework has incorporated ANAO Recommendation 3, and any preliminary findings of the evaluation.

- 3.48 DoHA's response to questions on the Commonwealth's communications with states could have done more to assist the Committee with its inquiry. The Committee accepts that providing a detailed account of every instance of communication between the Commonwealth and states would have been burdensome; however, the department could at a minimum have provided a high-level overview of the communications, or types of communications, that took place.
- 3.49 The Committee notes the ANAO's finding that DoHA, due to a lack of time to develop a clear internal strategy to inform funding priorities, relied on states to identify infrastructure gaps and needs in HHF Rounds 1 and 3.²⁷ The Committee was interested to learn more about the process by which the Commonwealth liaised with states in identifying suitable projects for funding, but as it was, the response shed no light on these legitimate questions.
- 3.50 The transparency of funding arrangements between the Commonwealth and states will continue to be an area of interest to the Committee in its future work program.
- 3.51 Finally, the Committee notes the Auditor-General's finding that, in the context of the HHF funding round being fast-tracked:
- ... with extra time and resources devoted to the administration of the HHF the department could have utilised a more formal 'top down' strategic planning approach, including independently assessing health infrastructure needs and gaps against government priorities.²⁸
- 3.52 The Committee considers that the fast-tracking of programs may undermine their integrity and that if more time was available and a more strategic approach undertaken, better value for money may have been achieved.

27 ANAO Audit Report No.45 2011-12, p. 47.

28 ANAO Audit Report No.45 2011-12, p. 63.