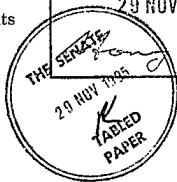
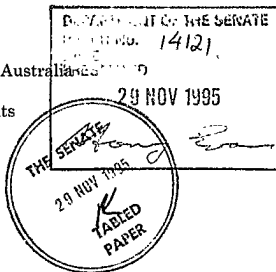


The Parliament of the Commonwealth of Australia

Joint Committee of Public Accounts



REPORT 342

THE ADMINISTRATION OF SPECIFIC PURPOSE PAYMENTS

A Focus on Outcomes

November 1995

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DUTIES OF THE COMMITTEE

The Joint Committee of Public Accounts is a statutory committee of the Australian Parliament, established by the *Public Accounts Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being to:

- examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the *Audit Act 1901*;
- examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- inquiry into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question.

The Committee is also empowered to undertake such other duties as are assigned to it by Joint Standing Orders approved by both Houses of the Parliament.

TERMS OF REFERENCE

On 2 February 1994, the Joint Committee of Public Accounts resolved to investigate the administration of Commonwealth-State Agreements for Specific Purpose Payments (SPPs), with particular reference to:

- the need for improvements in the management of SPPs by the Commonwealth, including attention to issues of coordination, value for money, efficiency incentives, non-compliance sanctions, best practice benchmarking and performance monitoring measures;
- the form, structure and content of SPP agreements;
- the appropriateness and relative efficiency of SPPs to the states and SPPs through the states;
- the costs of duplication in the administration of SPPs;
- the effectiveness of requirements for accountability to Parliaments; and
- the need to better define the roles and mandate of Commonwealth and state Auditors-General to audit SPPs

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CHAIRMAN'S FOREWORD

A central feature of Australia's federal financial system is the flow of Commonwealth funds to the states and territories, which is estimated will total over \$34 billion in 1995/96. Some \$18 billion of this amount will be provided in the form of Specific Purpose Payments (SPPs).

SPPs are mainly paid to state governments, but also to local governments, non government schools and universities to fund activities on the condition, in the majority of cases, that certain Commonwealth or joint Commonwealth - state policy objectives are met.

In the last decade, a number of Commonwealth and state reviews have highlighted considerable potential for improvements in SPP structures, administration and service delivery. For this reason, the JCPA decided to conduct its own inquiry into the administration of SPPs. The Committee made an early decision to confine its inquiry to the administration of SPPs and avoid entering debate on the appropriate balance of SPP and General Purpose Payments to the states or the merits of individual SPPs.

The Committee went to considerable lengths to gain information and comments on the administration of SPPs which included: conducting a joint survey with the Australian National Audit Office of SPP administration by the Commonwealth; sending questionnaires to each state and territory government and inviting their representatives, and others, to appear before the Committee at hearings held in most capital cities. It was unfortunate that not all state governments availed themselves of the opportunity to talk directly with the Committee, although all provided the Committee with written evidence.

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.

The JCPA's mandate is limited to the Commonwealth sphere, and thus, the Committee has not commented on the administrative practices of the non-Commonwealth parties to SPP agreements. Having said that, the Committee believes that many of the comments made in this report about Commonwealth administrative practices will be pertinent to state government agencies in particular. In fact, the Committee has recommended that the Commonwealth and state Auditors-General conduct more cooperative performance audits, which will allow independent holistic assessments of SPP performance in future.

The Committee recognises that the incorporation of many of its recommendations into SPPs will not be easy, particularly for the large, ongoing SPPs in the health, education and community services areas. Changes of the magnitude recommended in this report need to be implemented at a measured pace and in full consultation with the parties to SPP agreements and those affected by them. It is heartening to note that reforms of this nature are already being incorporated, gradually, into some existing SPPs.

Despite these difficulties, it is important that the momentum for change be strengthened. I believe that the Committee's recommendations, when adopted will result in more efficient and effective administration and, most importantly, better service to individuals and groups within the community who receive SPP funded services

As a final note, on behalf of the Committee, I wish to thank those individuals and agencies at the Commonwealth, state, local government and non-government levels who provided written and oral evidence and advice to the inquiry.

Les Scott MP
Chairman

RECOMMENDATIONS

Recommendation 1

Commonwealth departments should ensure that all SPP agreements include an explicit statement of the roles and responsibilities of each party to the agreement. (paragraph 2.16)

Recommendation 2

Commonwealth departments should ensure that each SPP agreement clearly indicates the arrangements for consultation between the parties to the agreement. (paragraph 2.19)

Recommendation 3

Commonwealth departments administering SPPs involving more than one level of government should ensure that the SPP agreements do not prescribe the method of service delivery by another level of government. However, any such prescriptions should remain in agreements until arrangements are in place to ensure that there is accountability to the Commonwealth for service delivery performance and outcomes. (paragraph 2.41)

Recommendation 4

Commonwealth departments should ensure that all SPP agreements include arrangements to require that the Commonwealth's contribution is recognised in application documentation, approval announcements, media releases, official openings, signs and plaques and other program publicity. (paragraph 2.46)

Recommendation 5

Commonwealth departments should ensure that each SPP agreement contains the following details of the SPP's national objectives:

- (a) *a statement of why the parties to the SPP agreement are entering the agreement; and*
- (b) *concise statements of what the SPP is trying to achieve, expressed in terms of measurable outcomes.*

Such a statement should be required for new SPP agreements before funding commences.

If such statements are not included in existing SPP agreements, then the responsible Commonwealth departments should draw up a publicly available timetable for their development and incorporation into the agreements. (paragraph 3.25)

Recommendation 6

Commonwealth departments should ensure that input controls, such as maintenance of effort clauses, matched funding agreements and caps on the proportion of funds that can be spent on administration, are phased out of SPP agreements at the same time as performance agreements are phased in. (paragraph 3.49)

Recommendation 7

New SPPs that incorporate performance agreements should not include input controls, such as maintenance of effort clauses, matched funding agreements or caps on the proportion of funds that can be spent on administration. (paragraph 3.50)

Recommendation 8

Commonwealth departments should ensure that new SPP agreements specify measurable performance indicators for each SPP objective.

Furthermore, as a priority, performance indicators should be specified for each objective of existing SPPs. If this has not occurred already, publicly available timetables should be drawn up for each SPP indicating implementation milestones for development of the performance indicators.

This recommendation should be read in conjunction with Recommendation 5. (paragraph 4.22)

Recommendation 9

New SPP agreements should outline the basic data collection requirements for each performance indicator. The data collection requirements should be established and agreed to by all parties to the SPPs before funding commences.

For existing SPPs, the requirement to link data collection requirements to performance indicators should be phased in as part of the timetable suggested in Recommendation 8. (paragraph 4.36)

Recommendation 10

Commonwealth departments administering SPPs should ensure that their management information systems for each SPP:

- (a) *can collate data to substantiate performance as required by the performance indicators agreed for the SPP;*
- (b) *are designed to ensure that the performance data collected from the other parties to the SPP agreement is compatible to the greatest possible extent;*
- (c) *allow the data collected from each state for SPPs with the same objectives to be comparable to the greatest possible extent; and*
- (d) *will allow all parties to an SPP access to the collated data in a format that is tailored to meet their particular requirements.*

In addition, responsible Commonwealth departments should regularly review the performance data being collected for each SPP to ensure that the data remains useful and important. If the information is no longer important or analysed, it should no longer be collected. Such reviews should be undertaken in consultation with the non-Commonwealth parties to SPP agreements. (paragraph 4.37)

Recommendation 11

SPP agreements should:

- (a) *specify incentives for good program management and the achievement of agreed outcomes;*
- (b) *detail graduated sanctions for non-compliance; and*
- (c) *outline consultative processes to identify the reasons for failure by any party to achieve performance targets. These processes should be gone through before any sanctions are considered.*

Furthermore, where appropriate, Commonwealth departments administering SPPs should draw up a timetable for phasing these requirements into existing SPPs. Such a timetable should be consistent with the timetable proposed in Recommendation 8. (paragraph 4.56)

Recommendation 12

Each SPP agreement should specify that the performance of the SPP, or part thereof, 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 for performance at least every three years.

Furthermore, Commonwealth departments administering SPPs should provide a publicly available timetable for the planned evaluations of the SPPs or parts thereof. (paragraph 4.63)

Recommendation 13

The Council of Australian Governments should consider the possibility of harmonising the enabling legislation of the Commonwealth and state Auditors-General to allow for joint performance audits of SPP administration.

In the interim, the Auditor-General should investigate the possibility of conducting coordinated performance audits of SPPs with state Auditors-General. (paragraph 4.74)

Recommendation 14

Annual report requirements for departments should be amended to require the following performance information to be collated separately for each SPP and made available to Members of Parliament, Senators and members of the public, within five working days from the date of the request after annual reports have been tabled:

- (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.

If objectives or performance indicators have not been developed for the SPP, then a timetable for their implementation should be included in the information available. (paragraph 4.87)

Recommendation 15

The Department of Finance should include basic performance data in the 'Catalogue of Specific Purpose Payments to the States and Territories', as the information becomes available from Commonwealth departments. (paragraph 4.92)

Recommendation 16

Commonwealth departments administering SPPs should undertake negotiations with the other parties to SPP agreements to adopt a single form of financial statement that, when audited, will satisfy:

- (a) the annual financial reporting requirements, as determined by the relevant Australian accounting standards and accounting concepts, and any other requirements for the agency or agencies receiving Commonwealth SPP funds; and
- (b) the minimum accountability, reporting and auditing requirements necessary for the acquittal of SPP grants by the Commonwealth.

Furthermore, the Department of Finance and the Commonwealth and state Auditors-General should be directly consulted during the negotiation process. (paragraph 5.28)

Recommendation 17

The requirements outlined in Recommendation 16 should be adopted for all new SPP agreements. (paragraph 5.29)

Recommendation 18

Commonwealth departments administering existing SPP agreements should liaise with the Department of Finance to determine whether payments are being made on an optimal schedule and dates to minimise the Commonwealth's recourse to short term borrowing. (paragraph 5.41)

Recommendation 19

Commonwealth departments responsible for the administration of SPPs through the states should investigate whether there are any unnecessary delays in the transfer of SPP funds through the states. (paragraph 5.49)

Recommendation 20

Commonwealth departments should investigate the possibility of broadbanding existing SPPs within their portfolios. The broadbanding should be considered on the basis of retaining the objectives and performance indicators of the original SPPs but pooling the Commonwealth funding. Service providers should have the flexibility to use the pooled funds as they see fit to meet the new combined objectives. (paragraph 6.27)

Recommendation 21

When Commonwealth departments negotiate new SPP agreements, consideration should be given to inserting 'sunset clauses', whereby new SPPs are assessed after a pre-determined period with a view to broadbanding them with existing allied SPPs. Such broadbanding should be considered with the principle of maintaining separate objectives and performance indicators, but pooling Commonwealth funding. (paragraph 6.28)

Recommendation 22

Commonwealth departments administering SPPs should ensure that they have departmental guidelines applicable for the negotiation of SPPs, the drafting of SPP agreements and the development of best practice administrative arrangements. (paragraph 6.37)

Recommendation 23

The Department of Finance should assess and compile examples of best practice SPP agreements (or components thereof) and associated administrative arrangements. These examples should be distributed to Commonwealth departments and be available to other interested parties. (paragraph 6.38)

1**SETTING THE CONTEXT**

'there is a need for overarching reform of SPP arrangements...' (Department of Finance¹)

Introduction

1.1 This is the report of the inquiry into the administration of Commonwealth-State agreements for Specific Purpose Payments (SPPs) held by the Joint Committee of Public Accounts in 1994 and 1995.²

1.2 This chapter begins by placing SPPs in the wider context of Commonwealth payments to state and territory governments. After describing the issues that prompted the inquiry, the chapter describes the conduct of the inquiry itself and concludes by providing a brief outline of the following chapters.

Commonwealth Payments to the States

1.3 A central feature of Australia's federal fiscal arrangements is the flow of Commonwealth financial assistance to state and local governments.³ In 1995-96, gross payments by the Commonwealth to these sectors is estimated to total \$34.2 billion, out of total Commonwealth outlays of approximately \$123.7 billion (28%).⁴

1 Department of Finance, *Submission*, p. S617 (Vol. 2 of Submissions).

2 A copy of the terms of reference for the inquiry is at page vi.

3 'States' means States and Territories unless otherwise stated.

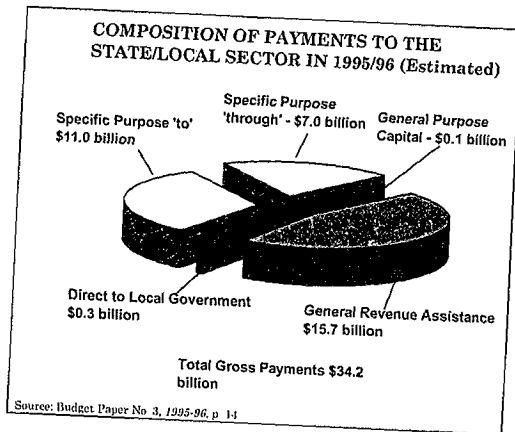
4 Budget Paper No. 1, *Budget Statements 1995-96*, AGPS, 1995, p. 1.1; Budget Paper No. 3, *Commonwealth Financial Relations with Other Levels of Government 1995-96*, p. 14. In 1972-73, gross payments by

1.4 Commonwealth financial assistance to the states is divided into two categories called SPPs and 'General Purpose Payments (GPPs)'. Within both categories, payments are made for recurrent and capital spending. Expenditure by the Commonwealth for its own purposes is called Commonwealth Own Purpose Outlays.

General Purpose Payments

1.5 There are only a few GPP payments, although the amounts involved are significant, totalling \$15.8 billion in 1995-96. GPPs are provided to the states as general budget support and are not subject to conditions on how they can be spent.

Chart 1.1



the Commonwealth to the states and local government were 36% of total Commonwealth outlays.

Specific Purpose Payments

1.6 All other payments to the States or local government that are not GPPs are classified as SPPs and are worth approximately \$18.3 billion in 1995-96. The assistance is provided under section 96 of the Constitution, which allows the Commonwealth Parliament to grant financial assistance to any state on such terms and conditions as Parliament sees fit. SPPs are classified as either SPPs to the states or SPPs through the states. There is a very small third category of SPPs, worth approximately \$270 million, or 1.5% of the total value of SPPs in 1995-96, which are paid directly to local governments.⁵

1.7 SPPs through the states are payments which the states pass directly on to other agencies. SPPs through the states have a minimal impact on state finances as the states are simply acting as the Commonwealth's agent or 'post box'. In 1995-96, SPPs through the states were worth \$7 billion and consisted of payments to universities, non government schools and local governments⁶. It should be noted, however, that Commonwealth payments to universities have been made directly to universities since 1993, bi-passing the states entirely, even though the payments are still classified as SPPs through the states.

1.8 SPP payments to the states make up the residual of SPP payments and are worth \$11 billion in 1995-96. They are paid directly to state governments to fund, in whole or part, state government activities on the condition, in the vast majority of cases, that Commonwealth policy objectives or joint Commonwealth-state objectives are met.⁷

1.9 There are a small number of SPPs paid to the states, that are not subject to expenditure conditions by the

⁵ For details of SPP funds paid direct to local government authorities see Budget Paper No. 3, 1995-96, p. 70.

⁶ Funds to local governments via SPPs through the states are distributed in each state through local government grants commissions.

⁷ One SPP involves the states paying the Commonwealth - the Higher Education - Superannuation Recoveries SPP.

Commonwealth. These were worth approximately \$500 million in 1995-96⁸.

1.10 Appendix IV provides a break down of the estimated GPP and SPP payments to individual states for 1995-96.

1.11 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 10 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.

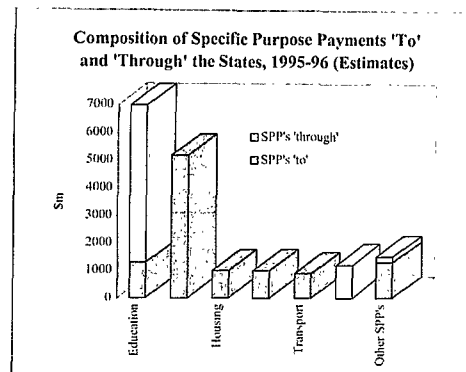
1.12 The disparate nature of SPPs is further compounded as SPPs are known by different names and there is a constant turnover as new SPPs are established and old ones cease.

1.13 The confusion over SPP categorisation has been addressed to some extent in Finance Circular 1995/10 which has been issued to all Commonwealth departments by the Department of Finance and details the different types of Commonwealth-state payments.⁹

1.14 The Committee appreciates that the confusion partly arises because SPPs are categorised, not by what they are, but by what they are not (they are not GPPs). Despite this 'catch all' definition, the Committee believes that SPPs have sufficient characteristics in common to allow valid generalisations to be made about their administration.

8 SPPs without spending conditions are typically revenue sharing arrangements or compensation, either for the transfer of programs, or for other Commonwealth action. Examples are the *Compensation-Companies Regulation (Foregone Revenue Payments)* SPP and the *Payment to the Northern Territory in Lieu of Uranium Royalties* SPP.

9 Department of Finance, *Definition of Commonwealth Own-Purpose Outlays and Outlays to the States and Territories (in Particular Specific Purpose Payments)*, Finance Circular 1995/10.

Chart 1.2¹⁰

Source: Budget Paper No. 3, 1995-96, p 10

An Historical Perspective

1.15 Between Federation and 1942, the states raised sufficient revenue to largely fund their own expenditure, mainly through their own income taxes. However, the Commonwealth always provided small grants to the states during this period and up to 14% of total state revenue by 1938-39. In fact, the first SPP was introduced as early as 1923, in the form of matched funding to the states for road construction.¹¹

1.16 Funding arrangements changed significantly in 1942 when the Commonwealth became the sole collector of income tax. From that period on, the still current practice of the Commonwealth collecting the bulk of public sector revenue

10 The SPP breakdown for 'education' is: SPPs through the states \$5 541 million and SPPs to the states \$1 408 million; SPPs through the states for the category 'Other SPPs' refers to \$330 million for the *Higher Education: Research* SPP.

11 See Denis James, *Intergovernmental Financial Relations in Australia*, Australian Tax Research Foundation, 1993, pp. 10-16.

and reimbursing the states, in the form of GPPs, for foregone taxation has existed.

1.17 The war years also saw the burgeoning use of SPPs by the Commonwealth. Originally justified on military grounds, their use was continued in the post-war period. The first Commonwealth-state housing agreement SPP was signed in 1945, Commonwealth assistance to universities began in 1951-52 and funding for secondary schools and Colleges of Advanced Education started in the mid 1960s.

1.18 Between 1972-73 and 1975-76, SPP assistance to the states quadrupled in value, increasing from 26% of total Commonwealth funding to the states to 48% of funding. There was another expansion in the use of SPPs under the Hawke government, and by 1991-92, they comprised 53% of total gross payments to the states.¹² In 1995-96, SPPs are still expected to account for 53% of payments to the states.

The Role of Local Government

1.19 As mentioned, local governments receive their primary funding via the *General Purpose Financial Assistance to Local Government SPP* through the states.

1.20 In evidence to the Committee, the Australian Local Government Association argued that the role of local government should be given greater recognition in appropriate SPP agreements and in the Council of Australian Government (COAG) working parties overseeing SPP reform.¹³

1.21 The Committee recognises the important role of local government in the delivery of SPP funded services. Although, it is beyond the scope of this inquiry, the Committee believes that the role of local governments in SPP service delivery and the SPP reform process should receive greater recognition. The Committee is also aware of debate about the appropriate ratio of Commonwealth to state funding for local

12 Denis James, *Intergovernmental Financial Relations in Australia*, p. 56.

13 See Australian Local Government Association, *Submission*, p. S170 (Vol. 1 of Submissions); Australian Local Government Association, *Transcript*, pp. 617-19.

government, but this issue too is beyond the scope of this inquiry.

The Need for Reform of SPP Administration

1.22 In the last decade, reviews at the Commonwealth level have highlighted considerable potential for improvements in the administration and structure of SPPs and in the effectiveness and efficiency with which SPP funded services are delivered to the public.¹⁴ As the Commonwealth Auditor-General noted:

The increased attention the [Australian National Audit Office] has provided to audits covering Commonwealth-State agreements has confirmed that this aspect of public administration has potential for considerable improvement, particularly in terms of accountability, value for money and effectiveness of program delivery.¹⁵

1.23 The states have long expressed concern that the Commonwealth uses the vehicle of SPPs to become involved in expenditure areas regarded as constitutionally belonging to the States. The states also believe that the use of SPPs by the Commonwealth has led to overlap between Commonwealth and state functions and to administrative inefficiency.¹⁶ For example, in 1990, New South Wales argued that:

Development of a more rational and coherent allocation of functional responsibilities among Australian governments coupled with introduction of modern management practices

14 For example, see Auditor-General, *Audit Report No. 18, 1990-91, Specific Purpose Payments to and through the States and Northern Territory*, AGPS, 1990; Industry Commission, *Public Housing, Report No. 34*, 11 November 1993, AGPS; House of Representatives Standing Committee on Community Affairs, *Home But not Alone: Report on the Home and Community Care Program*, AGPS, 1994. See also JCPA, *Report 296, The Auditor-General: Ally of the People and Parliament*, AGPS, 1989, pp. 121-6.

15 Auditor-General, *Audit Report No. 6, 1993-94, An Audit Commentary on Aspects of Commonwealth-State Agreements*, AGPS, 1993, p. vii.

16 These views are well canvassed in all state government submissions to this inquiry.

has the potential for generating savings and improving the efficiency of joint programs.¹⁷

1.24 Comments of this general nature were reinforced by several efficiency audits conducted in 1992 and 1993 by the Australian National Audit Office that were critical of the administration of individual SPPs.¹⁸ The weight of this evidence prompted the Joint Committee of Public Accounts (JCPA) to establish its own inquiry into the administration of Commonwealth-State agreements for SPPs in February 1994.

Scope of the Inquiry

1.25 The JCPA made an early decision to confine its inquiry to the *administration* of SPPs and avoid entering debate on the appropriate balance of SPP and GPP payments to the states or the merits of individual SPP objectives. These issues are matters of policy and are well canvassed at the regular Council of Australian Governments (COAG) and Commonwealth-state ministerial meetings.

1.26 The Committee chose to include the Higher Education SPPs within the ambit of its inquiry, even though they are not strictly payments made in accordance with Commonwealth-state agreements. The Committee came to this decision because payments to universities are still classified as SPPs and because they place obligations on state agents, namely the various Auditors-General.

1.27 The JCPA's mandate is limited to the Commonwealth sphere. Thus, the Committee does not have the power to investigate the activities of any state, local government or non government agencies that may also

17 NSW Cabinet Office, *Microeconomic Reform of Commonwealth/State Relations: Discussion Paper Prepared for Premiers' Conference*, 25 June 1990, p. 10.

18 For example: Auditor-General, *Audit Report No. 35, 1991-92, Efficiency Audit, Department of Primary Industries & Energy, Australian Quarantine Inspection Service Quarantine Division*, AGPS, 1992; Auditor-General, *Audit Report No. 11, 1992-93, Efficiency Audit - Department of Employment & Training - English as a Second Language*, AGPS, 1992; Auditor-General, *Audit Report No. 9, 1993-94, Community Cultural, Recreational and Sporting Facilities Program*, AGPS, 1993; Auditor-General, *Audit Report No. 15, The National Highway 'Lifeline of the Nation'*, AGPS, 1993.

contribute to the planning, funding, administration and implementation of SPPs. The report and recommendations necessarily focus on the Commonwealth component of SPP administration and make no comments on the efficiency, effectiveness or economy of the activities of any other parties to SPP agreements. Observations by these parties are included in the report to highlight the Commonwealth's practices and indicate where cooperative approaches are needed. Having said that, the Committee believes that many of the comments relevant to the Commonwealth are also pertinent to the other parties to SPP agreements.

Conduct of the Inquiry

1.28 To assist it develop terms of reference for the inquiry, the Committee held private briefings with officials from the ANAO and the Commonwealth-State Relations Secretariat of the Department of the Prime Minister & Cabinet in early April 1994.

1.29 Terms of reference for the inquiry and invitations for submissions were advertised in the national press on 22 and 23 April 1994. In addition, a discussion paper was distributed and a number of people and agencies were individually invited to comment on the issues before the inquiry.

1.30 The inquiry generated 53 submissions from a range of Commonwealth departments, all state governments, all Auditors-General, non-government school groups and a number of other agencies and interested individuals. A list of submissions received can be found at Appendix I and a list of exhibits at Appendix II.

1.31 To assist gain an appreciation of the state government perspective on the administration of SPPs, the Chairman of the JCPA, Mr Les Scott MP, wrote to all state premiers in October 1994 inviting them to comment on a number of questions concerning the administration of SPPs in general and several SPPs in particular.

1.32 To further gain evidence, the Committee held 10 public hearings in Canberra and state capitals between December 1994 and July 1995 and a list of the witnesses who attended these hearings can be found at Appendix III. Some

state governments were slow to cooperate with the inquiry and not all chose to appear before the Committee at public hearings. However, on the whole, state governments provided valuable insights into the Commonwealth's administration of SPPs.

1.33 Members of the Committee also received a private briefing on 29 June 1994 by the Chairman of the Industry Commission, Mr Bill Scales AO, in his capacity as chair of the Steering Committee to Review Commonwealth-State Service Provision.

Questionnaire on SPP Administration

1.34 It became rapidly evident to the Committee during the early stages of the inquiry that it lacked, and needed, basic data on the character and details of the 92 SPPs operating in 1994.

1.35 The Committee had copies of a 1990 survey of SPPs conducted by the Australian National Audit Office (ANAO) that had gathered information on the structure of the SPP agreements, their accountability mechanisms, whether they had objectives that were being monitored by the Commonwealth and whether the objectives were being met.¹⁹ By 1994, this information had become dated and the JCPA decided to conduct a similar survey in conjunction with the ANAO to provide more contemporary information. A copy of the questionnaire, the aggregate results and ANAO conclusions arising from the data were tabled in the Commonwealth Parliament by the Auditor-General in February 1995.²⁰

1.36 The Committee has made extensive use of the survey data during its inquiry. However, the Committee thought it unnecessary to duplicate the Auditor-General's commentary and recommendations. Readers wishing to obtain such information should refer to *Audit Report 21 of 1994-95*, which, in any case should be considered to complement this report.

19 Auditor-General, *Audit Report No. 18, 1990-91*.

20 Auditor-General, *Audit Report No. 21, 1994-95, Specific Purpose Payments to and through the States and Territories*, AGPS, 1995.

Structure of Report

1.37 During the inquiry, the Committee focused on three issues associated with SPP administration:

- the level of coordination between the Commonwealth and other parties to SPP agreements;
- program management; and
- accountability for performance and expenditure.

The Report is divided into 7 chapters. Chapter 2 explores the first issue, arguing that, for many SPPs, there needs to be a clarification of the roles and responsibilities of the various parties to SPP agreements. Within this chapter, the Committee discusses the costs of duplication in the administration of SPPs and recommends that the Commonwealth disengage itself from the micro-management of SPPs and concentrate instead on their strategic direction.

1.38 In Chapter 3, the Committee presents evidence that many SPPs lack clearly defined objectives and that it is often not possible to determine whether SPPs have achieved these objectives anyway. The Committee also argues that the Commonwealth should be more interested in whether the objectives are met, rather than how they are met.

1.39 Chapters 4 and 5 respectively discuss the two main types of public sector program accountability, performance accountability and financial accountability. In Chapter 4, the Committee explores the difficulty of measuring SPP performance and makes recommendations on how the Commonwealth could better measure whether SPP objectives have been met. In Chapter 5, the Committee recommends *more efficient processes* to ensure that the Commonwealth can acquit the expenditure of SPP funds.

1.40 In Chapter 6, the report looks at the structure of SPP agreements themselves and argues that many SPPs are too small to be efficiently managed as separate entities. The chapter concludes by urging departments to develop guidelines for the negotiation and administration of SPPs and that the Department of Finance disseminate examples of administrative best practice.

1.41 The final chapter acknowledges that reforming SPP administration is a complex and time consuming process and that a gradual approach will be required.

Need to Make Generalisations

1.42 One of the difficulties facing an inquiry into the administration of SPPs is that their number and variety make it necessary to generalise about issues. The JCPA is aware of this limitation and acknowledges that comments made in the report may not be appropriate for all SPPs or agencies. The Committee has framed its recommendations so that they will be applicable to the widest number of SPPs. It will be the

responsibility of Commonwealth departments to assess the applicability of the recommendations to individual agreements.

Concurrent Reviews of SPPs

1.43 As already mentioned, there have been a number of past reviews of SPP administration at the Commonwealth level by the ANAO, parliamentary committees and other agencies. These external reviews have been complemented by internal evaluations of individual SPPs by responsible departments at the Commonwealth and state level.

1.44 There are a number of reviews currently underway that will have an impact on the administration of SPPs. They include those of:

- the Steering Committee to Review Commonwealth-State Service Provision, due to complete its inquiry in December 1995;
- the Department of Finance's review of performance information, collected by portfolios that is due to for completion in February 1998;
- the ANAO audit of the Better Cities Program, due to be tabled in Parliament in 1996;
- the ANAO audit of performance information collected by the Department of Employment, Education & Training, due to be tabled in Parliament in 1996;

- the inquiry by the Senate Finance and Public Administration References Committee into service delivery by the Australian Public Service; and
- the Commonwealth Government's Taskforce on Payments to Statutory Authorities and the States which is to report to the Minister for Finance by 31 December 1995.²¹

1.45 Much of the impetus to reform the administration of SPPs has been driven by the Premiers' Conferences and the Council of Australian Governments (COAG) meetings. Of particular significance for the administration of SPPs are the agreements that were reached at the April 1995 COAG meeting in Canberra concerning reforms in the health, housing and community services areas. One of COAG's recommendations was that the roles and responsibilities of the Commonwealth and states of government should be clarified, and it is to this issue that the Committee turns in the following chapter.

²¹ During the course of this inquiry, the Senate Employment, Education & Training Committee tabled the report of its inquiry into *Accountability in Commonwealth-State Funding Arrangements in Education*, AGPS, June 1995.

ROLES AND RESPONSIBILITIES

Generally it is better, I believe, for the Commonwealth to confine its interest to broad policy rather than detailed policy or administration or program delivery. (Hon Paul Keating, MP)

Introduction

The Components of SPP Administration

2.1 Most SPPs are negotiated agreements drawn up between the Commonwealth and other parties, for the other parties to provide services that the Commonwealth cannot undertake on its own or chooses not to. The SPPs may be designed to supplement state services to ensure that national priorities are met, such as road building with the Australian Land Transport Development Program. SPPs may also be designed to fund the states to meet the Commonwealth's international responsibilities, such as with the World Heritage Property Management SPP. Alternatively, the agreements may be entered into to allow the states to provide a service on the Commonwealth's behalf, such as the provision of public beds in state hospitals under the Base Hospital Funding Grants (Medicare) SPP.

2.2 Regardless of their function, the administration of SPPs, as with other government programs, involves most of the following activities:

- (a) the establishment of broad policy and objectives;
- (b) strategic planning;

¹ Hon Paul Keating MP, *Address to the National Press Club: The Commonwealth and the States and the November Special Premiers Conference*, Tuesday, 22 October 1991, p. 19.

- (c) service delivery planning;
- (d) service delivery;
- (e) monitoring and assessment of performance; and/or
- (f) preparation of financial data and other accountability documents.

2.3 These are generic categories of administrative activity, not clear cut divisions and they need to be considered in the context of individual SPPs. For example, an activity that might be considered broad policy in one SPP may be appropriately classified as strategic planning for another SPP. Similarly, an activity nominally classified as service delivery planning may, in particular circumstances, take on strategic significance. However, despite the sometimes amorphous nature of the categories, their distinction does allow useful generalisations to be made about the stages of SPP administration.

2.4 The importance, extent and complexity of each activity listed in paragraph 2.2 for each SPP will also vary according to the nature of the SPP. Not all SPPs involve service delivery, for example, but each should require at least some consideration of activities (a)-(b) and (e)-(f) to be undertaken.²

2.5 It is with recognition of these qualifications that the Committee discusses the appropriate division of roles and responsibilities between the parties to SPP agreements

2.6 Note also, that even when the components of SPP administration are undertaken, they will not all be undertaken by the Commonwealth. Some of the activities will be carried out by the Commonwealth alone, some will be undertaken by the non-Commonwealth parties to the SPP agreements, or those acting on their behalf, and some of the activities will involve all parties.

2.7 The 'non-Commonwealth parties' that carry out the administrative activities associated with SPP programs

² Typical SPPs that do not involve service delivery are those providing compensation to the states, such as the *Payment to the Northern Territory in Lieu of Uranium Royalties* SPP.

include state governments, local governments, and a range of non-government agencies, alone or in any combination.³

Criticism by State Governments

2.8 There has been continuing criticism by state governments, in the context of roles and responsibilities, that many SPPs to the states do not clearly specify which parties to the agreements are responsible for carrying out or overseeing the activities detailed in paragraph 2.2. As a result, the states argue, administrative inefficiencies and duplication arises where more than one level of government becomes involved in the same activity, in particular service delivery and service delivery planning. These concerns have been acknowledged at the Commonwealth level, and in recognition of the problem COAG established a Working Group on Commonwealth-State Roles and Responsibilities in June 1993. The Working Group was charged with identifying where there was scope for 'clarifying roles and responsibilities' in inter-governmental arrangements, with particular attention, *inter alia*, to problems of duplication and overlap.⁴

2.9 The purpose of this chapter is to highlight the importance of having a clear allocation of roles and responsibilities in SPP agreements if efficiency is to be maximised. To this end, the Committee considers a generic model of appropriate roles and responsibilities for SPP management. The Committee also examines the nature and extent of duplication in SPP administration and recommends strategies for its reduction.

Roles and Responsibilities in Context

2.10 The comments in this chapter are primarily concerned with the administration of SPPs to the states. This is because the states have a far greater role in the administration of these SPPs than they do in SPPs through

3 Non-government agencies include the Catholic Education Commissions, Associations of Independent Schools, universities and a myriad of community, religious and charitable agencies providing services funded by various SPPs.

4 Council of Australian Governments, *Communique*, Melbourne, 8-9 June 1993, Attachment C.

the states. Nonetheless, the comments are relevant to the administration of SPPs through the states because the debate about roles and responsibilities also concerns issues of administrative efficiency, which are applicable for all SPPs.

2.11 In an attempt to use inclusive terminology, the chapter often refers to the 'other parties' to SPP agreements. In the case of SPPs to the states, other parties to SPP agreements refer to state government agencies. It should be remembered, however, that state governments may contract other agencies to undertake their SPP responsibilities. For example, state departments may mix their own appropriations with Commonwealth provided SPP funds to partly cover the costs of a charitable institution which may be undertaking an activity that is going towards meeting an SPP objective.⁵

2.12 In the case of SPPs through the states, the 'other parties' refer to universities and non-government schools.⁶

Clarification of Roles and Responsibilities

Roles and Responsibilities to be Clearly Stated

2.13 The Committee has approached the issue of who should be undertaking what aspect of SPP administration solely on consideration of administrative efficiency. On this basis, the Committee's first recommendations are founded on the premise that the roles and responsibilities of each party, or level of government to an SPP agreement should be clearly established and unambiguous, regardless of who undertakes the activity.

2.14 The need for such a clarification is particularly relevant where more than one party to an SPP agreement is involved in the same activity.

5 An example of service delivery under the Home & Community Care SPP.

6 Technically, 'other parties' should also refer to local governments, which receive funds via the General Purpose Financial Assistance to Local Government SPP. However this money is distributed to local governments via local government grants commissions in each state.

2.15 An examination of SPP agreements by the Committee indicates that many do not contain a short, clear in-principle statement setting out the roles and responsibilities of the parties to the agreement. The statements of roles and responsibilities contained in the *Supported Accommodation Assistance Act 1989*, which is the enabling legislation for the *Supported Accommodation Assistance Program SPP*, contains the type of statement the Committee believes should be explicit in all SPP agreements. Extracts from the schedule to the Act are contained in Table 2.1.

Table 2.1

Extracts from the Schedule to the
Supported Accommodation Assistance Act 1989

State Role

- (9) The State shall be responsible for the management and administration of the program at the State level in accordance with the provisions of this Agreement...

Commonwealth Role

- (10) The Commonwealth shall be responsible for:

- . the setting of national priorities and objectives;
- . monitoring and evaluating program performance at a national level; ...
- . involvement in evaluation and review...;
- . facilitating information sharing between States ...;
- . national program financial management;
- . provision of information to States, services and peak bodies...!

2.16 **Recommendation 1**

Commonwealth departments should ensure that all SPP agreements include an explicit statement of the roles and responsibilities of each party to the agreement.

2.17 Furthermore, the Committee believes that SPP agreements should also clearly set out consultative arrangements to ensure close cooperation and coordination between the parties to agreements and assist in the resolution of disputes.

2.18 This is particularly important as the returns from the joint ANAO/JCPA survey of SPP administration indicate that 33 of the 92 SPP agreements in existence in 1994 did not identify the communication and consultation arrangements to operate between the parties to the agreements.

2.19 **Recommendation 2**

Commonwealth departments should ensure that each SPP agreement clearly indicates the arrangements for consultation between the parties to the agreement.

2.20 The following section of the chapter details an ideal division of roles and responsibilities for the administration of SPPs, based on the components of program administration outlined in paragraph 2.2. Of course, given the variety of SPPs, this can only be a generic framework and the extent of its applicability to individual SPPs will depend on their nature.

Setting Broad Policy and Objectives

2.21 The Committee believes that SPPs are primarily a vehicle for ensuring that Commonwealth policies and priorities are implemented, even if this is done by complementing or 'topping up' existing state government activities. As such, the Commonwealth should be primarily responsible for developing the broad policy and objectives for SPPs. As a Commonwealth officer described, the Commonwealth initiates SPP because:

the Commonwealth government has decided that thus and thus is a priority and it might not be a state government priority, but that is the point. If it were a state government

priority, presumably that service would be provided already and the Commonwealth would not feel inclined to create a special purpose payment to enter into that area.⁷

2.22 One Commonwealth motivation for establishing an SPP is to bring together disparate state programs under an umbrella Commonwealth agreement that ensures that the state programs are funded to reach a national standard of service. The Committee believes that it is appropriate for the Commonwealth to set such standards if the Commonwealth is going to fund states to meet them, a point acknowledged by the New South Wales government, which is:

realistically aware that there will be cases where we will have to negotiate with the Commonwealth government on national standards. The Commonwealth has the legitimate role in determining those national standards.⁸

2.23 The South Australian Government also accepts:

the Commonwealth's legitimate need to ensure that broader outcomes and outputs are achieved. The state would be more than happy to commit itself to those sorts of agreed outcomes and outputs.⁹

2.24 This is not to suggest that the other parties to SPP agreements should be excluded from the development of SPP objectives and broad policy. As the primary service deliverers, the other parties have a role in assisting the Commonwealth refine objectives and ensure that they are attainable. The need for such assistance, is acknowledged by many Commonwealth departments, including the Department of Primary Industries & Energy:

there is a genuine intent not to be apologists for national interests, but, at the same time, find the commonality of purpose between state and Commonwealth priorities and have those fixed in the agreement... in administering these

7 Department of Human Services & Health - Tasmanian Regional Office, *Transcript*, p. 534 (Hobart, 21 April 1995).

8 NSW Government, *Transcript*, p. 570 (Sydney, 14 June 1995). See also Victorian Government, *Submission*, p. 8829 (Vol. 3 of Submissions).

9 South Australian Government, *Transcript*, p. 392 (Adelaide, 6 April 1995). Outputs and outcomes are discussed in greater detail in chapter 3.

SPPs our view would be to attempt to find that common ground because that is really the basis of good administration.¹⁰

2.25 Thus, while the Commonwealth may set the broadest policy goals, which is usually done at Cabinet level, Commonwealth departments charged with developing SPPs to implement such policies should ensure that the other parties to the agreements and other relevant stakeholders are consulted and objectives jointly agreed to.

Strategic Planning

2.26 The Commonwealth should also have primary responsibility for strategic planning associated with the attainment of SPP objectives. This will be particularly relevant where SPPs are ongoing and complex.

2.27 Strategic planning refers to the financial management, resource allocation, information distribution and coordination necessary to achieve SPP objectives at the national level. Strategic planning includes such tasks as the development of national strategic plans; the specification and maintenance of national data collection systems, and the commissioning and funding of research for policy development. In some SPPs, strategic planning may also include development of appropriate service delivery structures to ensure basic national consistency.

2.28 As with development of program objectives, the other parties to SPP agreements and relevant stakeholders should also be consulted for what is likely to be an ongoing process.

10 Department of Primary Industries & Energy, *Transcript*, p. 609 (Canberra, 28 July 1995).

Table 2.2

Roles and Responsibilities in SPP Administration			
	Admin C/w/ith Dept (1)	Another party to the agreement (2)	Both '1 & 2
1. Establishment of broad policy and objectives	51	5	26
2. Strategic planning	18	10	45
3. Planning for service delivery	5	45	27
4. Actual service delivery	5	68	8
5. Monitoring and review of performance	19	3	58

Source: Joint ANAO/JCPA survey of SPP Administration See Auditor General, *Joint Report No 21, 1991/92*, p. 91

This table, which is based on the joint ANAO/JCPA survey results, describes the various stages of SPP administration and notes how many SPP agreements specify that the activity is a Commonwealth responsibility, how many specify that it is the responsibility of another party to the agreement, and how many specify that it is a joint responsibility.

Note #1: The rows do not add up to the total number of SPPs in existence in 1991 (92) as roles and responsibilities are not specified for all agreements and because not all administrative activities are carried out for all SPPs.

Note #2: Respondents were not asked to specify whether SPP agreements indicate which party to the agreement is responsible for preparation of financial data and other accountability documents.

Service Delivery Planning

2.29 In the context of this report, 'service delivery' refers to any product or services that are funded by an SPP. In this sense, service delivery encompasses such diverse activities as: schools teaching students; *Meals on Wheels* organisations delivering meals to invalids; road building; the conduct of

public health awareness campaigns; and the provision of temporary mortgage relief to those on low incomes. Some service delivery is carried out by state governments and some by non-government agencies on behalf of state or Commonwealth governments. The key feature of service delivery, however, is that it is provided to individuals or groups in the community.

2.30 Service delivery planning, which precedes service delivery in the stages of SPP administration, includes all the design, resource and financial management and coordination necessary for efficient service delivery. Service delivery planning includes such tasks as ensuring that service deliverers comply with service standards; ensuring that service deliverers remain financially accountable, and identifying where new or different service delivery strategies are needed and developing them.

2.31 In principle, the Commonwealth has agreed, through a COAG communique, that states should have primary responsibility for service delivery planning. The communique, issued by the Commonwealth and states in February 1994, concludes that the states 'generally would have primary responsibility for program implementation and management'.¹¹

2.32 The contentious issue, however, is the extent to which the Commonwealth should have any involvement in SPP service delivery planning. The states argue strongly that the Commonwealth should have no involvement at all, while current practice indicates that Commonwealth departments believe they should have considerable input.

2.33 In a representative comment reflecting the state position, the Victorian Government argued that:

one of the major issues requiring attention is the need to recognise the States' capacity to manage the provision of quality services and to limit the involvement of the Commonwealth in program implementation.¹²

11 COAG, *Communique*, Hobart, 25 February 1994, p. 13.

12 Victorian Government, *Submission*, p. S412 (Vol. 2 of Submissions) See also New South Wales Government, *Submission*, p. S244 (Vol. 1 of Submissions); Tasmanian Government, *Submission*, pp. S511-12 (Vol. 2 of Submissions); Northern Territory Government, *Submission*, p. S 38 (Vol. 1 of Submissions); Queensland

2.31 As a consequential result of the package of reforms to SPP administration advanced in this report, the Committee agrees that the Commonwealth should shift its focus from the micro-management of SPPs and concentrate instead on strategic planning and ensuring that national objectives are met.

2.35 The trade off for granting the states greater autonomy in service delivery planning is that the Commonwealth will place a correspondingly greater emphasis on measuring service delivery performance. This means that states will be accountable for *what* they achieve, rather than *how* they achieve it, a matter that is discussed more fully in the next chapter. Service deliverers will also find the Commonwealth introducing more sophisticated measures to check that the services being delivered are actually contributing to SPP objectives.

2.36 Similarly, SPPs will need a framework of sanctions in place for non-compliance with the terms of SPP agreements before the Commonwealth gives full responsibility for service delivery planning to states. Such sanctions could include a temporary return to Commonwealth involvement in service delivery planning and oversight. The issues of performance measurement and sanctions are explored in greater detail in Chapter 4.

2.37 The principle that the states should be given sole responsibility for service delivery planning has been introduced in several recently negotiated, or renegotiated, SPP agreements. For example, the Department of Transport explained that the *Australian Land Transport Development Program (National Highway Funding)* SPP is now structured on the following basis:

To avoid wasteful Commonwealth duplication of what is properly State functions, or the imposition of unnecessary administrative costs, the Commonwealth defines the project parameters for each [National Highway] project and allows the State flexibility to deliver the project as cost effectively as it can.¹⁴

Government, *Submission*, p. S150 (Vol. 1 of Submissions); Western Australian Government, *Submission*, p. S298 (Vol. 2 of Submissions).

13 Department of Transport, *Submission*, p. S430 (Vol. 2 of Submissions).

2.38 In another example, the Commonwealth-State Housing Agreement SPP is being renegotiated to:

bring about a fundamental shift in roles and responsibilities ... The Commonwealth will rely more on monitoring outcomes to pursue agreed objectives, thereby giving the States and Territories more flexibility in delivering housing assistance.¹⁵

2.39 Similarly, reforms to health services delivery, which is funded, *inter alia*, by SPPs will be based on the principle of 'planning and managing services as close as possible to the service delivery level'.¹⁵

2.40 These reforms give state governments the flexibility to deliver or arrange delivery of SPP funded services as efficiently as possible, consistent with agreed performance targets being met. Accordingly, the Committee makes the following recommendation.

2.41 Recommendation 3

Commonwealth departments administering SPPs involving more than one level of government should ensure that the SPP agreements do not prescribe the method of service delivery by another level of government. However, any such prescriptions should remain in agreements until arrangements are in place to ensure that there is accountability to the Commonwealth for service delivery performance and outcomes.

Service Delivery

2.42 The Committee believes that it is appropriate for state governments alone to provide, or arrange for the provision of any service delivery associated with an SPP to the states. By definition, the Commonwealth is not involved in actual SPP service delivery for either SPPs to or through the states. This is because Commonwealth service delivery is

14 COAG, *Communique*, 11 April 1995, Canberra, p. 5.

15 COAG, *Communique*, 11 April 1995, Canberra, Attachment B.

funded via Commonwealth Own Purpose Outlays rather than SPPs,¹⁶

Recognition of Commonwealth Contribution

2.43 Given the joint nature of SPP agreements, the Committee believes it important that both the public and service deliverers are aware of the Commonwealth's financial contribution to the delivery of SPP funded services. In the Committee's experience, it is all too easy for the Commonwealth's contribution to joint Commonwealth - state programs to be ignored.

2.44 Appropriate recognition of the Commonwealth's contribution to SPPs should be ensured by identifying the Commonwealth's role in application documentation, approval announcements, media releases, official openings, signs, plaques and other program publicity.

2.45 The joint ANAO/JCPA survey of SPP administration indicates that 29 of the 92 agreements in existence in 1994 required joint recognition arrangements, while 54 did not (for 9 SPPs the issue was not considered applicable).¹⁷ The Committee believes that all SPP agreements should require and specify joint recognition arrangements and, accordingly, makes the following recommendation.

2.46 Recommendation 4

Commonwealth departments should ensure that all SPP agreements include arrangements to require that the Commonwealth's contribution is recognised in application documentation, approval announcements, media releases, official openings, signs and plaques and other program publicity.

2.47 The Committee also believes it important that Commonwealth departments consider a range of potential sanctions for non-compliance with this recommendation. The issue of sanctions is discussed in more detail in Chapter 4.

16 For example, service delivery by the Australian Federal Police or the Commonwealth Employment Service.

17 See Auditor-General, *Audit Report, No. 21, 1994-95*, pp. 30 & 93.

Monitoring and Assessment of Performance

2.48 Although the report goes into more detail about measuring performance in Chapter 4, such monitoring should be undertaken by all agencies involved in SPP administration and for all the activities described in paragraph 2.2 above. At the very least, all agencies involved, including the Commonwealth, should be monitoring and assessing their own performance.

2.49 However, in terms of external performance monitoring, the Committee believes that the Commonwealth should have primary responsibility for assessing the performance of SPPs towards meeting national objectives. The Commonwealth and the other parties to SPP agreements should agree on data collection requirements and it should then become the responsibility of the other parties to provide the data to the Commonwealth.

2.50 In the case of SPPs through the states, non government schools and universities are accountable for performance towards SPP objectives directly to the Commonwealth.¹⁸

2.51 Equally, state agencies should be responsible for ensuring the performance of non-government agencies contracted to undertake SPP funded service delivery, although that is an issue beyond the scope of this report.

2.52 The issue of performance measurement and how to hold the parties to SPP agreements accountable for their performance is the subject of Chapter 4.

Preparation of Financial Data and Other Accountability Documents

2.53 The purpose of preparing financial data, in this context, is to reassure the Commonwealth that SPPs funds were spent as per terms of the SPP agreement.

2.54 In Chapter 6, the Committee argues that the Commonwealth should accept the audited annual financial

18 The *General Purpose Financial Assistance to Local Government SPP* is technically classed as an SPP through the states but, for all intents and purposes, is an untied GPP to local government.

statements of grant recipients, with appropriate annotations, as adequate for ensuring financial accountability for SPPs. Some service deliverers are required to provide additional financial information to the Commonwealth, although the purpose of this data is to enable the Commonwealth to determine future levels of funding, rather than to ensure financial accountability.¹⁹

The Clarification of Roles and Responsibilities

2.55 The Committee acknowledges that the debate about the appropriate roles and responsibilities of parties to SPP agreements reflects a wider tension between the states and the Commonwealth over their respective roles in the federation. However, the Committee believes that, in terms of SPP administration, a refocus by the Commonwealth on strategic planning and on monitoring and assessing performance, instead of on the micro-management of service delivery, will allow the most efficient use of scarce public resources - both Commonwealth and state. The caveat, which is addressed in the following chapters, is that service deliverers will need to become more accountable to the Commonwealth for their performance.

2.56 Before discussing these issues in more detail, however, this chapter will conclude by examining in greater detail the implications of the overlap of roles and responsibilities in the administration of SPPs.

The Costs of Duplication

2.57 One of the Committee's terms of reference is to investigate the costs of duplication in the administration of SPPs, which is one of the more contentious issues associated with their administration. The contention arises, primarily, because of the difficulty of defining and quantifying duplication.

19 Such as non-government schools through the Non-government Schools Financial Questionnaire.

What is Administrative Duplication?

2.58 State governments argue that administrative duplication arises out of an overlap of roles and responsibilities by Commonwealth and state officials. In the view of the states, this occurs when Commonwealth officials undertake activities already being done by state officials, usually in the areas of service delivery planning and monitoring. In a representative comment, the Queensland government explained:

In its most basic form, duplication occurs because SPP arrangements require Commonwealth bureaucrats to monitor and oversight the activities of State bureaucrats who themselves are monitoring and oversighting delivery of particular programs in their own jurisdictions.²⁰

2.59 The Western Australian government advances the more radical argument that duplication is, by definition, any Commonwealth activity within an area of state jurisdiction. Under this definition, administrative duplication begins if the Commonwealth simply examines the need for SPPs in an area of state activity.²¹

2.60 As indicated when discussing the Commonwealth's role in the establishment of broad policy and objectives for SPPs, the Committee believes that the Commonwealth has a legitimate role in implementing national policies, even in areas of existing state activity, via SPPs. Thus the Committee has not accepted the broader definition of duplication as advanced by Western Australia.

2.61 In a 1990 review, the Commonwealth Grants Commission estimated the extra costs associated with the administration of SPPs.²² In coming to a figure, the states

20 Queensland Government, *Submission*, p. S153 (Vol 1 of Submissions). See also Northern Territory Government, *Submission*, p. S630 (Vol. 3 of Submissions); Queensland Government, *Submission*, p. S686, (Vol. 3 of Submissions).

21 Western Australian Government, *Submission*, pp. S768 & S798-99, (Vol. 3 of Submissions).

22 Commonwealth Grants Commission, *Report on Issues in Fiscal Equalisation*, AGPS, 1990, Vol. I, *Main Report*, pp. 94-5 & Vol. II, *Appendix and Consultant's Report*, Appendix K.

evaluation and reporting procedures consequent upon the Commonwealth's involvement in a sample of SPPs. The Commonwealth was also asked for details of the costs to it of the same activities for the same programs. The activities for which the information was requested were considered to be the activities undertaken in addition to the 'normal' administration of each program.

2.61 One can argue that these identified activities are administrative duplication simply because more than one level of government is undertaking them. However, if these are duplicated activities, it begs the question as to whether they are necessary or unnecessary duplication. For example, is negotiation between the Commonwealth and states on SPP objectives unnecessary duplication, or important consultation? In a similar vein, external auditors review the same accounts as internal auditors, but is that unnecessary duplication or prudence?

2.62 Furthermore, the price of SPP duplication may be less than the total cost to the nation of each state undertaking the same activity separately. For example, the Department of Human Services & Health believes that if all states had to run their own Pharmaceutical Benefits Schemes, the overall resources required would be 'significantly' higher and more expensive, if only because of the economies of scale.²³ Thus a single large program, less efficient with duplication when seen in isolation, may still be ultimately more cost effective than running several more efficient, but parallel programs.

2.63 The difficulties associated with trying to define administrative duplication have given rise to widely differing assessments of the extent of the problem. On one hand, the Western Australian government sees the problem as 'endemic in the system', while the Secretary of the Commonwealth Department of Human Services & Health considers administrative duplication as 'trivially small, relative to the size of the grants'.²¹

2.64 The Committee has concluded that trying to give a precise definition of administrative duplication is of limited

23 See Department of Human Services & Health, *Submission*, pp. S467-68 (Vol. 2 of Submissions).

24 Western Australian Government, *Submission*, p. S306 (Vol. 2 of Submissions); Department of Human Services & Health, *Transcript*, p. 99 (Canberra, 23 January 1995).

value because any definition needs to be qualified and is likely to be disputed. Unfortunately, the same problem is true for attempts to quantify the costs of duplicated administration.

The Cost of Administrative Duplication

2.65 As a first step in calculating the costs of duplication, one has to establish the costs to each party of the activity that is being duplicated.

2.66 In its 1990 exercise, the Commonwealth Grants Commission estimated that the total cost to the states for the identified activities for the sample of SPPs was \$27 million and for the Commonwealth \$21 million. The Commission noted, however, that there were 'substantial reservations' attaching to the figures, which needed to be 'treated with considerable caution'.²⁵

2.67 The Committee went through a similar exercise, asking each State to calculate an estimate of the total number and cost of staff required by the state agencies to meet the reporting and accountability requirements imposed by the Commonwealth for a sample of SPPs.²⁶ These figures were to be compared with the costs to the Commonwealth for these activities that were nominated in the joint ANAO/JCPA survey of SPP administration. Unfortunately, the Committee faced similar problems to the Grants Commission as there was an incomplete data return from the states and calculations were made on different assumptions and with differing degrees of accuracy.

2.68 Calculating administrative costs needs to be done with great care. For example, the cost of any duplicated

25 Commonwealth Grants Commission, *Volume II*, p. 168. Note that the figures refer to the costs of administration for the sample of SPPs - they are not extrapolated across all SPPs.

26 Correspondence, chairman of JCPA, Les Scott MP, to Premiers and Chief Ministers, 13 October 1994. For responses see Northern Territory Government, *Submission*, pp. S627-52 (Vol. 3 of Submissions); Queensland Government, *Submission*, pp. S653- S729 (Vol. 3 of Submissions); Australian Capital Territory Government, *Submission*, pp. S730-64 (Vol. 3 of Submissions); Western Australian Government, *Submission*, pp. S765-71 (Vol. 3 of Submissions); Tasmanian Government, *Submission*, pp. S776-8 (Vol. 3 of Submissions).

activity will vary on the basis of the seniority of the staff duplicating each others effort, simply because salary costs will vary between jurisdictions. Furthermore, the total cost of an activity, and hence any duplication, will be affected by whether the costs of internal supervision are included in the calculation. The Northern Territory government also argued that any departmental calculations on staff costs should be inflated by 15% to cover the corporate support costs incurred by central agencies.²⁷

2.69 Moreover, the costs of program administration per annum and, hence, of potential duplication will vary according to the age of SPPs. It is likely that the costs per annum of administering an SPP will be higher when the program is first negotiated and as it is established than when all parties are familiar with its operation. As one Commonwealth department explained, 'once the grant has become stable, the costs of administration go down'.²⁸

2.70 Nonetheless, attempts to cost the administration of SPPs continue to be made. In a 1990 Economic Planning Advisory Council paper, the Commonwealth Department of Finance estimated that the total annual cost to the Commonwealth for administering SPPs was \$30 million.²⁹ However, when giving evidence to the Committee, the Department of Finance admitted that the figure had been 'guesstimated' and that 'the estimate needs to be treated with great care'.³⁰

2.71 In summary, the Committee notes the difficulties and uncertainty associated with trying to calculate the costs of administrative duplication. The Committee believes that attempts to put a figure on the costs of duplication in the administration of SPPs are largely academic, given the qualifications needed, both in terms of definition and cost.

27 Northern Territory Government, *Submission*, p. S635 (Vol. 3 of Submissions).

28 Department of Human Services & Health, *Transcript*, p. 97 (Canberra, 23 January 1995).

29 Economic Planning Advisory Council, *Towards a more Cooperative Federalism?*, Discussion Paper 90/04, July 1990, AGPS, Canberra, p. 12.

30 Department of Finance, *Transcript*, p. 53, (Canberra, 13 December 1994).

What Can be Said About Administrative Duplication?

2.72 The Committee believes that it will be a more fruitful exercise to adopt administrative best practice to minimise duplication 'in principle', rather than try and precisely define and cost it.

2.73 A review of data collected by the Committee indicates that impressions of duplication are most likely to be associated with SPPs having disputed or unclear objectives and complex service delivery and service delivery planning arrangements.

2.74 SPPs that are perceived to include a high degree of duplication include the *Home & Community Care* SPP; the Medicare SPPs; the *Supported Accommodation Assistance Program* SPP and the *Commonwealth State Housing Agreement* SPP in its current form.

2.75 The Committee concludes that SPP duplication, however defined, will be minimised if:

- the roles and responsibilities of each party to SPP agreements are clear;
- consultation arrangements for any shared roles and responsibilities are established and simple; and
- the Commonwealth focuses on strategic planning and performance assessment and shifts its focus from service delivery planning, conditional on adoption of appropriate performance agreements and arrangements to recognise Commonwealth funding contributions.

2.76 These principles are based on the Committee's belief that some involvement by all parties in establishment of broad policy and objectives and strategic planning is desirable and not unnecessary duplication.

End Note: The Community Comes First

2.77 The Committee believes that it is important that parties negotiating appropriate roles and responsibilities remember that the objective of most SPPs is to provide a service to individuals or groups within the community. As

aply put by the Association of Independent Schools of Victoria:

The important issue is ensuring that the balance of responsibilities between the two [levels of government] is most effectively aligned to the benefit of the citizens.³¹

2.78 It is to this topic of ensuring that SPPs focus on achieving their objectives and serve the community, that the Committee turns in the next chapter.

3

INPUTS, OUTPUTS, OBJECTIVES AND OUTCOMES

'certainly there is a major shift now from focusing on what goes in to focusing on what comes out. That in itself will largely remove one of the bones of contention between the Commonwealth and the states'. (Department of Human Services & Health¹)

Introduction

3.1 The previous chapter discussed *who* should conduct the activities necessary for SPPs to meet their objectives. The chapter concluded by noting that the real reason for *optimising these administrative arrangements* is to ensure that SPP services are effectively delivered to the public at minimal cost.

3.2 A true test of administrative efficiency is whether an SPP is meeting its objectives. This chapter focuses on *what* is measured and *what* should be measured to determine whether SPPs are meeting their objectives. The next chapter, on performance accountability, discusses *how* to measure whether SPPs are meeting their objectives.

31 Association of Independent Schools of Victoria, *Submission*, p. S372 (Vol. 2 of Submissions).

1 Department of Human Services & Health, *Transcript*, p. 585 (Canberra, 28 July 1995).

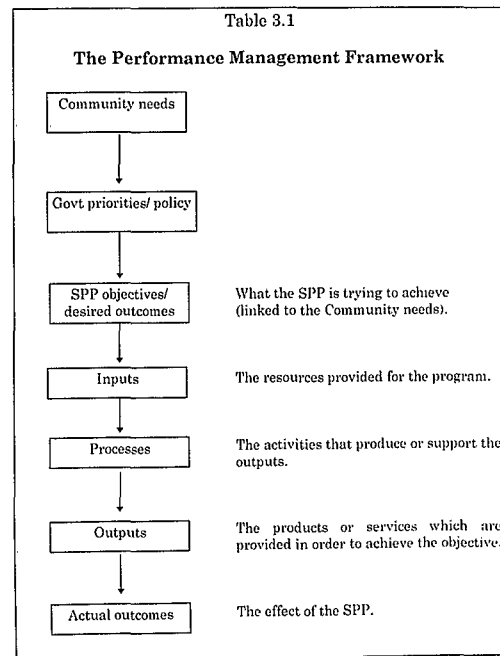
Management Terminology

3.3 The complexity of assessing whether programs, including SPPs, meet their objectives is made easier if the program activities are broken down into the generic classification of function described in Table 3.1.² The table also introduces some of the terminology used through the rest of the report.

3.4 Most importantly, all SPP agreements should contain explicit 'objectives' that are concise, measurable and realistic statements of what the SPP, is trying to achieve. Some SPPs will have a single objective, while others will have multiple objectives.

3.5 Objectives should be described in terms of desired 'outcomes'. Outcomes are the consequences of the program, beyond the administrative activity associated with the SPP. For many SPPs that means that objectives should be described in terms that reflect the anticipated benefits of the program to the community. Outcomes may take time to become evident, may be intended or unexpected, but are beyond the direct control of the SPP.

² See also Department of Finance, *Doing Evaluations: A practical Guide*, AGPS, 1994, pp. 19-23; Department of Finance, *Performance Information, Practical Guides, Leaflet 1*, April 1995; Department of Finance, *Setting and Changing Objectives, Leaflet 4*, June 1995.



Source: Department of Finance, *Doing Evaluations*, p. 8, and Office of the Auditor-General of Western Australia, *Public Sector Performance Indicators, 1992-94*, Special Report, Report No. 7, December 1994, p.5

3.6 The following table provides examples of these terms used in the context of SPP agreements.

Table 3.2

Examples of the Relationship between Inputs, Processes, Outputs and Outcomes

Outcomes should not be confused with 'outputs' which are the products or services which are delivered by a program in order to achieve program outcomes. Outputs are activity, while outcomes are results.

An SPP might have the objective of reducing urban road congestion. The input may be \$100 million, the process may be laying bitumen, the output may be a new freeway and the outcome shorter transit times. An unintended outcome may be fewer traffic accidents.

Similarly, an education SPP may have the objective of increasing the number of bi-lingual students. The input may be more language teachers, the process more language classes included in school timetables, and the output more students attending language classes. The outcome may be more students who can speak two languages.

Outcomes Hierarchies

3.7 The examples given in Table 3.2 are straightforward. In reality, most SPPs have multiple processes and potential outcomes. This may make demonstrating a link between outputs and outcomes difficult, particularly if outcomes are unclear or potentially influenced by other factors outside the SPP.

3.8 In an attempt to clarify the causal links between outputs and outcomes, outcomes are often expressed in terms of 'outcomes hierarchies'. These re-arrange the outcomes of a program in a hierarchy with lower level outcomes being those most directly related to outputs and which must be achieved in order to generate the higher level outcomes. Higher level

outcomes describe the ultimate outcomes desired as a result of the program.³

3.9 Given the complexity of most SPP programs, it is probable that outcomes hierarchies will have to be established for each SPP if achievement of objectives is to be measured. It is likely that the attainment of objectives will first be measured by establishing a link between SPP outputs and lower order outcomes which are the most easily measured. When experience has been gained with measuring lower level outcomes, then attempts can be made to link SPP outputs to higher level outcomes.

A Lack of Focus on Objectives

3.10 As a matter of principle, the Committee believes that SPPs should be structured and administered in such a way as to focus on their objectives.

3.11 The Committee has received evidence from many witnesses indicating that, in general, SPP agreements and the administrative efforts of Commonwealth departments, focus attention on measuring SPP processes and outputs at the expense of measuring outcomes and the extent to which objectives have been met.

3.12 The Committee is particularly concerned that the focus on processes and outputs is having an adverse impact on the achievement of SPP objectives (where articulated).

3.13 The evidence giving rise to the Committee's concern has come from agencies involved in all levels of SPP activity, including the Commonwealth.

3.14 As a representative comment from state governments, the Tasmanian government stated that:

SPP agreements rarely clearly articulate the objectives of the program, and the desired outcomes from the payments.⁴

3 See: Sue Funnell & Bryan Lenne, *Clarifying Program Objectives for Program Evaluation, Program Evaluation Bulletin, 1/1990*, NSW Government Office of Public Management, 1990.

4 Premier of Tasmania, *Submission*, p. S832 (Vol 4. of Submissions).

3.15 Similarly, the Australian Local Government Association told the Committee that:

our main concern about SPPs is that many of them operate in a vacuum of planning - not planning in the sense of planning for specific program areas, but planning in the sense of looking at outcomes for whole communities.⁵

3.16 A major service provider funded by the Home & Community Care (HACC) SPP described HACC funding as:

not based on a clear, longer term strategic view of needs based outcomes and targets... basically there is not a bigger picture in which we all sit and we therefore know where we are going.⁶

3.17 Finally, from a Commonwealth wide perspective, the Department of Prime Minister & Cabinet acknowledged that:

there is scope to shift the arrangements for SPPs further towards an outcome focus...⁷

3.18 In the previous chapter, the Committee argued that the Commonwealth should be responsible for the establishment of the broad policy and objectives of SPPs. Part of this responsibility involves the Commonwealth identifying the desired outcomes that SPPs are funded to bring about. As such, the Committee was concerned to hear an admission from the Department of Human Services & Health that:

Although the name 'specific purpose payments' actually suggests that the Commonwealth has been very specific about what it has wanted to do, that has not always been the case and to some extent that has led to some of the acrimony.⁸

5 Australian Local Government Association, *Transcript*, p. 615 (Canberra, 28 July 1995).

6 Home Care Service of NSW, *Transcript*, p. 272 (Sydney, 21 February 1995).

7 Department of the Prime Minister & Cabinet, *Submission*, p. S525 (Vol. 2 of Submissions).

8 Department of Human Services & Health, *Transcript*, p. 577 (Canberra, 28 July 1995).

3.19 This evidence suggests that there is a need for all SPPs to have objectives that are expressed in terms of clear, achievable and measurable outcomes before funding commences.⁹

Reform Occurring

3.20 The Committee notes that increasing effort is being made to describe SPP objectives in terms of outcomes. An area where developing measurable outcomes is particularly difficult is the health and community services sector. It is, therefore, heartening to see that health ministers have recently agreed to reform:

which better focuses on the outputs of the public health system and which provides a clear framework for ensuring that funding from both Commonwealth and States/Territories is applied to improve patient outcomes.¹⁰

3.21 Likewise, the Commonwealth-State Housing Agreement SPP is being renegotiated with the intention that 'the Commonwealth will rely more on monitoring outcomes to pursue agreed objectives'.¹¹ Similarly, payments to universities via the recently re-negotiated *Higher Education (Recurrent)* SPP now place a far greater emphasis on achieving outcomes instead of assessing processes.¹²

3.22 Identifying measurable outcomes is easier for some SPPs than others. For example, the objective of the *Bovine Brucellosis & Tuberculosis Eradication* SPP is implied in its title and it is comparatively easy to express this objective in terms of measurable outcomes.

3.23 For other SPPs it is not so easy and the process of defining measurable outcomes will take time and wide

9 A Working Party of the Australian Health Ministers' Advisory Council is examining the specification of outcomes for existing health related SPPs.

10 Australian Health Ministers' Conference, *Media Release*, 15 June 1995, Alice Springs, Agenda Item 11, p. 1.

11 COAG, *Communique*, 11 April 1995, p. 5. For background on this issue see Industry Commission, *Report No. 34, Public Housing*, Vol. I, November 1993, pp. 37-43.

12 University of Tasmania, *Transcript*, p. 512 (Hobart, 21 April 1995).

consultation. However, the Committee believes that it is a necessary and achievable process, a message reinforced by the Victorian Government:

It is true that the development of meaningful output and outcome can be complex. However, they place an additional administrative burden on States only if they are simply added to existing requirements, rather than there being a move away from inputs. If applied properly, there is no reason to believe that outcome measures should pose a significantly greater administrative burden than inputs.¹³

3.24 The Committee believes it desirable and possible for all SPPs to have clearly measurable objectives. In his report on the results of the joint ANAO/JCPA survey of the SPP administration, the Auditor-General recommended that future SPP agreements set out, *inter alia*, the purpose of the programs' existence and the objectives to be pursued.¹⁴ The Committee believes that this recommendation is sufficiently important to be a requirement for existing SPPs as well as for future ones. Accordingly, the Committee makes the following recommendation.

3.25 Recommendation 5

Commonwealth departments should ensure that each SPP agreement contains the following details of the SPP's national objectives:

- (a) *a statement of why the parties to the SPP agreement are entering the agreement; and*
- (b) *concise statements of what the SPP is trying to achieve, expressed in terms of measurable outcomes.*

Such a statement should be required for new SPP agreements before funding commences.

If such statements are not included in existing SPP agreements, then the responsible Commonwealth departments should draw up a publicly available timetable for their development and incorporation into the agreements.

13 Victorian Government, *Submission*, p. S823 (Vol. 3 of Submissions).

14 Auditor-General, *Audit Report*, No. 21, 1994-95, p. 30.

A Continuing Focus on Inputs

3.26 However, despite the reforms occurring for some SPPs, an outcomes focus remains a theoretical ideal for many others. The reality is often a continuing Commonwealth preoccupation with the *activity* associated with SPPs rather than with the *results* of the activity

3.27 In fact, the states claim, and Commonwealth departments concede, that for many SPPs, the Commonwealth continues to control SPP activities - the processes and outputs - through attaching conditions to the use of SPP inputs.

3.28 In brief, the Committee believes that input controls will become inappropriate as Commonwealth attention shifts towards accountability for what is achieved (outcomes) rather than how it is achieved (processes and outputs). The Committee develops this argument in greater detail after reviewing the impact of input controls.

3.29 The Commonwealth uses input controls for two main reasons:

- first, in the absence of outcome measurement, input controls may be the only way for the Commonwealth to keep other parties to an SPP accountable for their use of Commonwealth funds; and
- second, to ensure that the states do not respond to an infusion of Commonwealth funds via an SPP by withdrawing their own funding.

3.30 This later concern is part of the wider practice known as 'cost shifting', which describes the phenomenon of states endeavouring to use Commonwealth funded programs instead of state funded programs to deliver services.

The Problem of Cost Shifting

3.31 Cost shifting is both an inter and intra program problem. It is not confined to SPP administration alone and

also includes cost shifting between state funded programs and Commonwealth Own Purpose Outlays.¹⁵

3.32 In terms of SPP administration, many Commonwealth departments are convinced that state governments withdraw their own funding for services when the Commonwealth contributes funding to the same area via SPPs, thus shifting the cost of programs from the states to the Commonwealth. As the Department of Finance explained:

*a major concern in areas of shared responsibility... is the shifting of program costs, particularly the shifting of costs onto a program which is run by another level of government. This is endemic in the health system for example... There are no estimates of the financial impact, but it is thought to be a significant one. Programs need to be designed to minimise the scope for activity of this kind.*¹⁶

and furthermore, that:

*When we design a system we need to be conscious of the incentives which we may, wittingly or unwittingly, build into it to encourage states to withdraw from an area of activity... with no improvement in overall outcomes, or maybe a small one, but certainly a large change in who bears the bill. It is a danger that is ever present...*¹⁷

3.33 The states respond that, as their own priorities change, so will their levels of funding. Western Australia also counters the Commonwealth argument by stating that it 'ignores the very significant level of Commonwealth cost shifting to the States in the health area and in respect of general revenue funding'.¹⁸

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- 15 An example of cost shifting between state services and a Commonwealth Own Purpose Outlay is the state practice of requiring discharged hospital patients to purchase prescription drugs from community pharmacies via the Pharmaceutical Benefits Scheme (funded by the Commonwealth) rather than through hospital pharmacies (funded by the states).
- 16 Department of Finance, *Transcript*, p. 50 (Canberra, 13 December 1994).
- 17 Department of Finance, *Transcript*, pp. 68-9 (Canberra, 13 December 1994).
- 18 Western Australian Government, *Submission*, p. S793 (Vol. 3 of Submissions).

The Commonwealth Response: Input Controls

3.34 The Committee recognises that cost shifting is a significant problem for the Commonwealth under existing SPP arrangements. In an attempt to contain the practice of cost shifting, the Commonwealth has introduced a number of input controls into SPP agreements.

3.35 Input controls are usually in the form of 'maintenance of effort' clauses, 'matching' requirements or administrative 'caps'. Maintenance of effort clauses require state governments to maintain existing levels of expenditure as a condition for receiving SPP funds for the same program. Matching clauses in SPPs require states to provide their own funds for a program, before the Commonwealth will contribute. Administrative caps limit the percentage of funding that can be used for administrative purposes.

3.36 The use of these types of input controls are quite extensive. The joint ANAO/JCPA survey indicated that 42 of the 92 SPPs current in 1994 contained either maintenance of effort and/or matching requirements. Furthermore, some 32 of the SPPs placed caps on the percentage of grants that could be spent on administration

Maintenance of Effort Clauses

3.37 State governments are critical of maintenance of effort clauses in SPP agreements, arguing that these clauses lock a state into expenditure levels in particular areas, even if state budget priorities, or local requirements change.¹⁹ As the Victorian Government explained with the example of the Commonwealth Dental Health Program SPP:

As the states have got a program running, it would be silly for the Commonwealth to set up its own program... Why not co-ordinate the two? It was just that in that coordination the Commonwealth went that extra step and, rather than just seeking from the states the commitment that money would be spent appropriately, there was an extra step to tie in a whole

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- 19 Victorian Government, *Submission*, p. S825 (Vol. 3 of Submissions). See also: Tasmanian Government, *Submission*, p. S507 (Vol. 2 of Submissions); Western Australian Government, *Submission*, pp. 795-6 (Vol. 3 of Submissions); and South Australian Government *Submission*, p. S602 (Vol. 2 of Submissions).

state program, which had already been running, through maintenance of expenditure requirements.²⁰

3.38 Maintenance of effort clauses also have the unintended consequence of reducing incentives for productivity improvements to be made because they do not allow any efficiency savings to be diverted to other areas. As the ACT government colourfully described, these clauses are 'anathema to improved efficiency'.²¹

Matched Funding Arrangements

3.39 Similarly, state governments are concerned that 'matching arrangements are detrimental to efficiency and budget flexibility'.²² The South Australian Government gave an example of the perverse incentives that matching funding arrangements can promote:

*[the state is] faced with a decision between does the state spend its own resources on areas that it judges are the highest priority... or does it spend resources on particular individuals simply because we attract \$1.50 for every dollar we spend of our own? Those are the kind of constraints, inflexibilities and inefficiencies that tend to be created.*²³

3.40 In its submission, the South Australia Government also gave examples of funds that had to be returned to the Commonwealth because the necessary state expenditure could not be justified.²⁴

20 Victorian Government, *Transcript*, p. 450 (Melbourne, 11 April 1995)

21 Australian Capital Territory Government, *Submission*, p. S732 (Submission Vol. 3).

22 Victorian Government, *Submission*, p. S810 (Vol. 3 of Submissions). See also Tasmanian Government, *Submission*, p. S506 (Vol. 2 of Submissions) & p. S835 (Vol. 4 of Submissions); New South Wales Government, *Submission*, p. S226 (Vol. 1 of Submissions).

23 South Australian Government, *Transcript*, p. 395 (Adelaide, 6 April 1995).

24 South Australian Government, *Submission*, p. S604 (Vol. 2 of Submissions). For the Commonwealth response see: Department of Housing & Regional Development, *Transcript*, p. 118 (Canberra, 23 January 1995).

The Committee's Response to Input Controls

3.41 The Committee believes that input controls such as maintenance of effort and matching requirements have several disadvantages, even though they do restrict cost shifting under existing SPP agreements.

3.42 Most importantly, a focus on input controls does not put clients first, particularly for those SPPs that are providing services directly to individuals and groups within the community. It seems inequitable, in the case of matched requirements, for programs to suffer the double blow of losing Commonwealth funding simply because they have already lost state funding.

3.43 Second, the Committee agrees that such input controls inappropriately limit the incentive for service providers (in this case, state governments) to improve their efficiency.

3.44 Third, input controls do not allow service providers the flexibility to move funds between program elements within SPPs to ensure that overall objectives are achieved.

3.45 Fourth, the imposition of these controls by the Commonwealth and the subsequent attempts by states to minimise their impact seem to be the greatest cause of Commonwealth-state rancour in SPP administration. Such rancour is counter productive when the Commonwealth and states should be cooperating on the development of shared SPP objectives.

3.46 Finally, a focus on inputs distracts attention from what should be the primary objective of achieving SPP objectives, as the Victorian Government explained:

*the fact of the matter is that [a focus on inputs does] not actually provide you with a good indication of what you are achieving. It is our view that... you actually need to have an idea of your objectives, which are outcomes, or what your outputs in the program are, and then measure against those rather than simply focusing on the dollars put in, dollars spent.*²⁵

25 Victorian Government, *Transcript*, p. 441 (Melbourne, 11 April 1995).

3.47 However, the Commonwealth will continue to rely on input controls in SPP agreements while the potential for cost shifting exists. The Committee believes that cost shifting practices will continue as long as SPP objectives remain unclear and as long as parties to agreements are not assessed on their performance towards meeting objectives.

3.48 Accordingly, the Committee makes the following recommendations.

3.49 **Recommendation 6**

Commonwealth departments should ensure that input controls, such as maintenance of effort clauses, matched funding agreements and caps on the proportion of funds that can be spent on administration, are phased out of SPP agreements at the same time as performance agreements are phased in.

3.50 **Recommendation 7**

New SPPs that incorporate performance agreements should not include input controls, such as maintenance of effort clauses, matched funding agreements or caps on the proportion of funds that can be spent on administration.

3.51 Both these recommendations have the caveat that input controls should not be removed until performance agreements are in place with the parties to SPP agreements that are responsible for service delivery. The adoption of such agreements implies, not only concurrence on SPP objectives themselves, but also on how to measure progress towards achieving them. The need for performance assessment and the difficulties of measuring SPP performance are topics of the following chapter.

4

PERFORMANCE ACCOUNTABILITY

'The mere fact that resources are directed to a particular area means nothing in terms of achieving the stated aim of a particular program.' (Tasmanian Government¹)

Introduction

4.1 In the previous chapter, the Committee argued that administrators should focus on meeting SPP objectives and outcomes. Program managers, SPP clients, elected representatives and the public at large all have an interest in knowing the extent to which these objectives have been met and whether they have been met in the most efficient manner possible. The focus of this chapter is on the measurement of performance and on how to hold the parties to SPP agreements accountable for their performance.

What is performance?

4.2 In terms of public sector programs, including SPPs, 'performance' is a combined measure of:

- the extent to which objectives or targets have been achieved;
- the efficiency with which resources allocated to meeting those objectives were used; and
- the probity, equity and fairness with which the outcomes were achieved.²

1 Tasmanian Government, *Submission*, p. S838 (Vol. 4 of *Submissions*).

2 Department of Finance, *Doing Evaluations*, p. 120.

Performance Information

4.3 The data gathered to measure performance is called 'performance information'. There are different types of performance information, depending on which aspect of performance is being measured, such as efficiency, effectiveness or service quality. Performance information can be quantitative (numerical) or qualitative (descriptive), again depending on which aspect of performance is being measured.³ The information is expressed in terms of 'performance indicators', which are the units used to measure performance. Examples of performance indicators include the percentage of graduates in employment or further study; the percentage of a target group reached by a health campaign; or the proportion of those seeking public housing that can be allocated suitable accommodation within a reasonable time. The key requirement of all performance indicators, however, is that they must be measurable and verifiable. The terms used in performance measurement are described in Table 4.1.

Table 4.1

Performance Measurement Terminology

Benchmarking: A systematic and ongoing process to search for and introduce best practice standards. Benchmarks may become performance targets.

Cost Effectiveness: the relationship between inputs, described in dollars, and outcomes.

Effectiveness: the extent to which outcomes are achieving SPP objectives.

Efficiency: the extent to which inputs are minimised for a given level of outputs.

Performance Indicators: units to measure performance.

Performance Targets: Objectives or benchmarks to measure progress against. Also called 'milestones'.

³ See Department of Finance, *Practical Guides, Performance Information for Policy Analysis, Leaflet 1*, April 1995.

4.4 As with outcomes, performance information can be explained in terms of a hierarchy. At the lower level, performance information is at its most detailed and voluminous. The information is of most use to the agencies collecting it and will allow agency staff to assess the performance of individual tasks they are responsible for. At the higher level, performance information will be aggregated and provide overview information, of interest to senior management and those outside the agency including parliaments, the public and organisations carrying out similar tasks.

4.5 In terms of SPPs, agencies charged with service delivery will have most interest in the lower level performance information, while the Commonwealth will use the higher level aggregated data to assess the performance of the performance of SPPs as a whole, and to assist with strategic planning. It is the aggregated higher level performance information of use to the Commonwealth that is of most relevance to this report.

4.6 For performance to be measured, appropriate data has to be collected, and then the data has to be analysed. In this chapter, the Committee suggests that in many cases, the right sort of data to allow valid assessments of SPP performance to be made is not being collected or analysed.

Data Collection

Inadequate Performance data collected

4.7 The Commonwealth has conceded that SPP data collection is often not adequate to monitor performance or undertake strategic planning. Instead, data collection by the Commonwealth tends to measure inputs, processes and outputs, that give the Commonwealth a good indication of the level of activity being undertaken by other parties to agreements, but not an indication of the outcomes. As the Department of Prime Minister & Cabinet explained:

In general, performance information which allows for assessment of outcomes and the development of agreed national goals is insufficient... the conditions on SPPs are

often concerned with input controls rather than output monitoring.⁴

4.8 The Tasmanian Government agrees, commenting that:

Accountability in intergovernmental relations, as reflected in the terms and conditions of SPPs, has... tended to result in reliance on detailed controls over inputs and programs as a means of assessing the relative effort made...⁵

4.9 One non-government service provider funded through the *Home & Community Care Program (HACC)* SPP sets its own organisational targets because HACC's:

Assessment systems are not adequate as they are not based on true performance measures which are based on outcomes.⁶

4.10 The Victorian Auditor-General commented in a similar vein:

you get the impression that [the Commonwealth] is just throwing the money out at the states and not being particularly interested in the outcomes.⁷

4.11 One reason why the Commonwealth collects data on expenditure of funds (inputs), processes and outcomes, instead of on outcomes is that it is easier to measure and compare. This point was well made by the Victorian Government:

Too often, that sort of inputs based report, such as expenditure in particular, has been used as a de facto

4 Department of the Prime Minister & Cabinet, *Submission*, p. S524 (Vol. 2 of Submissions). For an example, see comments on the *Commonwealth-State Disabilities Agreement SPP*, Department of Human Services & Health, *Submission*, p. S488 (Vol 2 of Submissions).

5 Tasmanian Government *Submission*, p. S518 (Vol. 2 of Submissions).

6 Correspondence from General Manager, Home Care Service of NSW to Secretary, Joint Committee of Public Accounts, 22 March 1995, p. 6.

7 Victorian Auditor-General, *Transcript*, p. 467 (Melbourne, 11 April 1995).

measure for determining program achievement because it has been simpler.⁸

Table 4.2

Data Collection by the Commonwealth

The joint ANAO/JCPA survey of SPP administration indicated that of the 92 SPPs in existence in 1994:

- 7 had no specified objectives
- 25 had no specified performance indicators; and
- 31 had no specified performance targets.

Of the 92 SPPs, 71 required program data to be provided to the Commonwealth. For these 71 SPPs, Commonwealth departments claimed:

- to collect data on outcomes for 41 SPPs (58%), although the data collected was not subject to routine analysis for 12 of these SPPs! (see below);
- not to collect data that allows assessment of performance towards objectives for 9 SPPs (13%);
- not to collect data that allows strategic planning for 12 SPPs (17%);
- not to routinely subject data from the states to analysis for 16 SPPs (23%); and
- have experienced problems with data returns from the states for 34 of the SPPs (48%).

Data Collection on Outcomes

4.12 The measurement of performance for SPPs, as with other public sector programs can be a complex task, particularly when the SPPs have multiple and hard to

8 Victorian Government, *Transcript*, p. 441 (Melbourne, 11 April 1995). See also Northern Territory Government, *Transcript*, p. 350 (Perth, 5 April 1995).

quantify objectives based on outcomes that may take time to emerge. Furthermore, it can be very difficult to establish causal links between outcomes and particular SPPs, particularly, in the education, health or community services area.⁹

4.13 The Committee is particularly sensitive to the impact that collecting performance information may have on smaller non-government agencies delivering SPP funded services. The Committee acknowledges that smaller organisations simply may not have the resources to collate anything more complex than process and output data. In the case of non-government schools, the Queensland Catholic Education Commission pointed out that collection of some forms of outcomes information may 'introduce a degree of complexity which schools are unable to meet at present'.¹⁰

4.14 Because of the complexity of developing performance indicators it may be necessary for parties to SPPs to initially develop indicators for lower order outcomes in outcomes hierarchies. Equally it may be easier to focus on trends and whether improvements in outcomes are occurring, rather than trying to measure absolutes. Once SPP administrators have gained experience with applying indicators to lower order outcomes and developed realistic performance targets, then targets and indicators can be developed for the higher order objectives. The need for this type of approach was indicated by the Department of Human Services & Health:

*Outcomes are hard... Nevertheless, I think that we can get a much better perspective on outcomes, but in the first instance we will be talking more about outputs than outcomes.*¹¹

4.15 A similar point was made by the Northern Territory government:

we just have to keep on working towards better program measures of outputs and outcomes. Outcomes are pretty hard

9 For additional comment, see Tasmanian Government, *Submission*, p. S519 (Vol. 2 of Submissions).

10 National Catholic Education Commission, *Submission*, p. S288 (Vol. 1 of Submissions). See also Department of Employment, Education & Training, *Transcript*, p. 168 (Canberra, 23 January 1995).

11 Department of Human Services & Health, *Transcript*, p. 595 (Canberra, 28 July 1995).

*to measure in some of these cases, so a lot of it is going to be outputs.*¹²

4.16 The Committee welcomes the early efforts being made to define performance indicators for SPPs and believes that the quality of such data and the uses made of it, will be refined over time as experience is gained.¹³

External Developments

4.17 There are a number of public sector developments with applications beyond SPPs administration that will make SPP performance assessment easier.

4.18 For example, the Review of Commonwealth-State Service Provision, chaired by the Chairman of the Industry Commission, is due to publish an agreed set of national performance indicators for service provision programs for, *inter alia*, schools, hospitals, community services and public housing - all funded via SPPs.¹⁴ The Review, established by COAG in July 1993, is a cooperative endeavour between the states and the Commonwealth and both levels of government will use the performance indicators for assessing the performance of their own programs. However, the results will be of obvious benefit for those measuring SPP performance, particularly if the same indicators are being used by all states.

4.19 Increasing attention is also being placed on benchmarking exercises, where best practice can be assessed and used to develop performance targets and compare

12 Northern Territory Government, *Transcript*, p. 361 (Perth, 5 April 1995).

13 An example of the increasing refinement in performance data collection is the Annual National Report on educational performance prepared by the Department of Employment, Education & Training (DEET). For comments on its evolving nature, see Queensland Catholic Education Commission, *Transcript*, p. 262 (Brisbane, 20 February 1995); DEET, *Transcript*, pp. 162 & 166 (Canberra, 23 January 1995). The ANAO is currently reviewing the collection of performance information by DEET and a report is due to be tabled in the 1996 autumn sitting of Parliament.

14 The review is due to be completed in December 1995. However, there has been criticism that the working party has not been consulting widely enough. See, Senate Employment, Education & Training References Committee, *Accountability in Commonwealth-State Funding Arrangements in Education*, AGPS, June 1995, pp. 102-08.

performance between states.¹⁵ The Department of Finance is also conducting a Performance Information Review which will examine the quality and clarity of program objectives and associated performance information of Commonwealth programs. The Review will also be identifying best practices, which will be of use to all SPP managers.

4.20 Furthermore, the progressive adoption of accrual reporting by governments will make it easier to identify the true costs of program delivery and facilitate inter-state comparisons.¹⁶

4.21 Despite these external initiatives, the Committee believes that Commonwealth departments responsible for SPP administration need to take the initiative in determining the type of data collection that will be necessary to allow SPP performance to be assessed. Accordingly, the Committee makes the following recommendation.

4.22 **Recommendation 8**

Commonwealth departments should ensure that new SPP agreements specify measurable performance indicators for each SPP objective.

Furthermore, as a priority, performance indicators should be specified for each objective of existing SPPs. If this has not occurred already, publicly available timetables should be drawn up for each SPP indicating implementation milestones for development of the performance indicators.

This recommendation should be read in conjunction with Recommendation 5.

4.23 The Committee assumes that complementary performance indicators and targets will be developed, where appropriate, for state and regional service delivery

15 For example, the Australian Health Ministers' Council established a Commonwealth/state working group to develop nationally consistent benchmarks for the health sector. It is due to report in December 1995.

16 See JCPA, *Report 338, Accrual Accounting - A Cultural Change*, AGPS, August 1995.

Data Collected Not Always Analysed

4.24 Several witnesses have complained that they see little use for some of the data currently collected by the Commonwealth for SPPs and question whether Commonwealth departments use the information anyway. As the Australian National Audit Office observed:

Performance data often suffers from being incomplete or inaccurate and is at times collected without subsequent analysis. So there is absolutely no point in collecting it at all except to make people believe that there is some potential for review.¹⁷

4.25 Providing the perspective of a non-government service deliverer, the Queensland Catholic Education Commission commented:

Every year there is additional finetuning and another bright idea saying, 'It would be nice to know this.' Schools say, 'Yes, it might be nice to know it, but is it of any use to anybody? Is anybody actually using the information?'¹⁸

4.26 In a specific example, concerning the *Home and Community Care* SPP, an official from the Department of Human Services & Health stated that:

I think most people would agree that the data we get in home and community care is not all that useful.¹⁹

4.27 At the very least, these comments reflect the need for better feedback by Commonwealth departments to providers of SPP funded services on what collected data is used for.

17 Australian National Audit Office, *Transcript*, p. 26 (Canberra, 13 December 1994).

18 Queensland Catholic Education Commission, *Transcript*, p. 258 (Brisbane, 20 February 1995). See also Silver Chain Nursing Association, *Transcript*, pp. 336-7 (Perth, 5 April 1995).

19 Department of Human Services & Health - Tasmanian Regional Office, *Transcript*, p. 538 (Hobart, 21 April 1995).

The Cost of Data Collection

4.28 The Committee is sensitive to the costs in time and resources required to collate performance data. The problem is particularly acute for smaller non-government agencies that may be delivering SPP funded services. As a service group funded by the *Home & Community Care SPP* warned:

Given that you can spend an awful lot of money on collecting data, the balance has got to be between collecting the right sort of data, making sure that you are getting value for your money and making sure providers like mine have got the systems...²⁰.

4.29 The impost is even greater when the data collection requirements are changed, as a schools group complained:

once you set up a system to capture your information, next year somebody changes the requirements, you have got to change the system of capturing the data...²¹

4.30 The lesson to be drawn is that Commonwealth departments should be sensitive to the costs of data collection and training people to collect the data and use information management systems. This is particularly important as outcomes data often needs a greater degree of qualitative interpretation if it is to be useful.

4.31 The Committee believes that Commonwealth departments should assess their SPP data collection requirements to ensure that data they require others to submit is important, useful to know and analysed by the Commonwealth. If the Commonwealth does not analyse the information it collects or the information is not important, then it should not be collected.

20 Home Care Service of New South Wales, *Transcript*, p. 284 (Sydney, 21 February).

21 Queensland Catholic Education Commission, *Transcript*, p. 257 (Brisbane, 20 February 1995). See also Australian Association of Christina Schools & National Council of Independent Schools Association, *Transcript*, p. 649 (Canberra, 28 July 1995).

Data Collection Systems

4.32 Furthermore, the data collected has to 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.

4.33 The Committee believes that it is the responsibility of the Commonwealth to ensure that all parties to SPP agreements are providing compatible and comparable data that will allow valid assessments of an SPP's performance. Ideally, the parties to SPP agreements should use common data collection systems that will allow the easy transfer of data and obviate the need for each party to design and use separate systems.

4.34 Furthermore, the data collection system should ideally allow the parties to the agreement feedback on their own performance. Such feedback allows service deliverers to better plan their own activities and compare their performance with that of other service deliverers.

4.35 Accordingly, the Committee makes the following recommendations.

4.36 **Recommendation 9**

New SPP agreements should outline the basic data collection requirements for each performance indicator. The data collection requirements should be established and agreed to by all parties to the SPPs before funding commences.

For existing SPPs, the requirement to link data collection requirements to performance indicators should be phased in as part of the timetable suggested in Recommendation 8.

4.37 Recommendation 10

Commonwealth departments administering SPPs should ensure that their management information systems for each SPP:

- (a) *can collate data to substantiate performance as required by the performance indicators agreed for the SPP;*
- (b) *are designed to ensure that the performance data collected from the other parties to the SPP agreement is compatible to the greatest possible extent;*
- (c) *allow the data collected from each state for SPPs with the same objectives to be comparable to the greatest possible extent; and*
- (d) *will allow all parties to an SPP access to the collated data in a format that is tailored to meet their particular requirements.*

In addition, responsible Commonwealth departments should regularly review the performance data being collected for each SPP to ensure that the data remains useful and important. If the information is no longer important or analysed, it should no longer be collected. Such reviews should be undertaken in consultation with the non-Commonwealth parties to SPP agreements.

Sanctions for Non-Compliance

4.38 Thus far, the Committee has commented on the processes and types of data needed to measure performance and assess whether SPP objectives have been met.

4.39 However, the processes cannot guarantee that the parties to an SPP agreement will provide the necessary performance data, meet the performance targets or comply with other requirements of the agreement. SPP agreements therefore need incentives or sanctions to encourage compliance with the terms of the agreement and to meet objectives.

Failure to Meet Performance Targets

4.40 The Committee draws a distinction between non-compliance with particular terms of the SPP agreement, such as not providing performance data as required, and failure to achieve performance targets, despite the best efforts of service deliverers.

4.41 As a general principle, the Committee is reluctant to encourage the use of sanctions, particularly for when performance targets are 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.

4.42 The Committee believes that it is more appropriate to structure SPPs to focus on incentives for achieving performance targets, rather than sanctions for non-compliance.

4.43 Incentives could include allowing service deliverers to carry forward funds to the following program year or accelerate implementation of future activities.

4.44 However, if performance targets have not been met, then the Commonwealth and the interested parties should be reviewing why the targets were not met and considering appropriate remedial strategies.

4.45 It should be remembered that other parties to SPP agreements will have an equal interest in ensuring that SPPs objectives are met within budget as these parties are also accountable for their performance to client groups - whether the clients be electors or potential customers of the SPP funded service.

Other Forms of Non-Compliance

4.46 The other form of non-compliance for which sanctions may be more applicable usually relates to the provision of data to the Commonwealth, including lack of progress reports, delays with data returns and statements or certifications of expenditure.

4.47 The difficulties that Commonwealth departments can face is illustrated by comments the Victorian Auditor-General made when reviewing the Victorian Government's

provision of data returns required under the then *National Campaign Against Drug Abuse SPP*:

The reports are required to be submitted by a specified date, contain required information and be accurate. However, audit found that the State consistently failed to meet the deadlines... despite numerous requests for the required data. Commonwealth Department of Human Services & Health personnel advised audit that the late lodgement of the material had resulted in the information being useless for timely management decision-making at the Federal level.²²

4.48 In another example that indicates the strength of feeling associated with some SPP disagreements, a Commonwealth department requested data from state service providers funded via an SPP and was denied the information:

The reasons [why] were caught up in the nature of federal-state relations rather than any apparent or possible impropriety... I do not know what to make of that other than to suggest that they be hopefully more mature next time an approach is made.²³

4.49 The joint ANAO/JCPA survey of SPP administration assessed the range of sanctions that the Commonwealth has available and has used to ensure compliance with SPP agreements. These have been described in the Auditor-General's report of the survey results.²⁴ The survey indicated that of the 87 SPPs where the use of sanctions was applicable, 25 did not specify the sanctions that could be used in either the SPP agreement or supporting documents.

4.50 In summary, the quantitative and qualitative data gathered by the survey, and other evidence provided to the Committee suggests that Commonwealth departments are reluctant to apply sanctions because the available sanctions are often inappropriate and because their application would

22 Victorian Auditor-General, *Report on Ministerial Portfolios: May 1994*, p. 261. See also Alcohol & Other Drugs Council of Australia, *Transcript*, p. 655 (Canberra, 28 July 1995).

23 Department of Employment, Education & Training, *Transcript*, p. 171 (Canberra, 23 January 1995).

24 Auditor-General, *Report No. 21, 1994-95*, pp. 27-9.

threaten service delivery to the public.²⁵ An example, of the type of sanction currently available to the Commonwealth includes those contained in the Capital Grants Program SPP agreements administered by the Department of Employment, Education & Training, which provide that the Commonwealth minister 'may determine that funds be repaid and may delay any further payments'.²⁶

4.51 The need for the Commonwealth to adopt an enforcement role should decrease as the parties to SPP agreements responsible for service delivery are allowed more flexibility in return for meeting performance targets. As input controls, such as matching and maintenance of expenditure requirements and the Commonwealth's oversight of service delivery are phased out, any potential incentives to circumvent what the states have always considered onerous requirements will reduce.

4.52 However, the Committee acknowledges that, from time to time, sanctions will be needed, and for this reason, they should be detailed in SPP agreements.

4.53 Sanctions should be graduated and could include a requirement for more frequent reporting on performance, a temporary return to input and process controls, or greater Commonwealth oversight of service delivery. As a last resort, payments by the Commonwealth could be delayed or reviewed in such a way as to ensure that those receiving SPP funded services are not affected.

4.54 Furthermore, the use of any sanctions and the reasons why could be highlighted in departmental annual reports, an issue discussed more fully below.

4.55 The Committee believes it important that parties to SPPs are aware of the sanctions that may be applied against them by the Commonwealth. For this reason, SPPs should

25 See: Department of Human Services & Health, *Submission*, p. S459 (Vol. 2 of Submissions), *Transcript* pp. 102-3 (Canberra, 23 January 1995); Department of Housing & Regional Development, *Transcript*, pp. 120-1 (Canberra, 23 January 1995); Australian National Audit Office, *Transcript*, p. 51 (Canberra, 13 December 1994) and Auditor-General, *Audit Report, No. 6, 1993-94*, p. 16.

26 Department of Employment, Education & Training, *Commonwealth Programs for Schools: Administrative Guidelines*, Appendix L, clause 5.

clearly state the range of sanctions that can be used for non-compliance.

4.56 Recommendation 11

SPP agreements should:

- (a) *specify incentives for good program management and the achievement of agreed outcomes;*
- (b) *detail graduated sanctions for non-compliance; and*
- (c) *outline consultative processes to identify the reasons for failure by any party to achieve performance targets. These processes should be gone through before any sanctions are considered.*

Furthermore, where appropriate, Commonwealth departments administering SPPs should draw up a timetable for phasing these requirements into existing SPPs. Such a timetable should be consistent with the timetable proposed in Recommendation 8.

SPP Evaluation

4.57 While the continuous collection and assessment of performance data should be the main way of measuring SPP performance, much benefit can be gained through conduct of periodic program evaluations.

4.58 Program evaluations review all or part of a program to assess:

- the continuing relevance and priority of objectives;
- whether outcomes have achieved objectives;
- whether there are better ways of achieving the objectives; and/or
- whether the program should be expanded or contracted.²⁷

²⁷ Department of Finance, *Doing Evaluations*, pp. 3-4.

4.59 Such evaluations are usually coordinated by the administering agency and carried out by the agency's own staff or those on contract to it.

4.60 Since 1988, the Commonwealth has had a service wide internal evaluation strategy requiring programs, in whole or part, to be evaluated every 3 to 5 years. To ensure the evaluations occur, departments are required to prepare annual Portfolio Evaluation Plans (PEPs), for submission to the Department of Finance. PEPs detail the major reviews of departmental programs with significant policy or resource implications. Departments are also required to develop agency evaluation plans for internal use and indicate all evaluation activities planned or taking place within departments.

4.61 SPPs, as Commonwealth programs, will be reviewed through these regular evaluation processes. The problem is that smaller SPPs in particular, may not be reviewed in their own right, but as components of wider programs.

4.62 The results of the joint ANAO/JCPA survey of SPP administration indicate that SPPs, or elements of them, are in fact reviewed regularly. However, the agreements for only 48 of the 92 SPPs in existence in 1994 (52%) specified that the SPP should be evaluated regularly. The Committee thinks it important that such a requirement be formalised in all SPP agreements.

4.63 Recommendation 12

Each SPP agreement should specify that the performance of the SPP, or part thereof, 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 for performance at least every three years.

Furthermore, Commonwealth departments administering SPPs should provide a publicly available timetable for the planned evaluations of the SPPs or parts thereof.

4.64 Other levels of government are also likely to have evaluation strategies that may lead to reviews of activities that are funded, at least in part by SPP funds.

Auditors-General and Performance Audits

The Commonwealth Auditor-General

4.65 One feature of the evaluations described above is that they are usually done by, or on behalf of, the administering department. As such, they are classified as 'internal evaluations'. In contrast, a number of agencies undertake 'external evaluations' of Commonwealth programs. The most important conductor of external evaluations of Commonwealth programs is the Auditor-General. However, similar external reviews are also undertaken on an irregular basis by parliamentary committees and bodies such as the Industry Commission.

4.66 The Commonwealth Auditor-General, as the major reviewer, has a mandate to provide an independent assurance and evaluation of the economy, efficiency and effectiveness of administration of Commonwealth public sector entities.²⁸ The mandate extends to allowing the Auditor-General to conduct reviews of the performance of the Commonwealth component of SPP administration, identifying best practices and recommending ways of improving the economy, efficiency and effectiveness of SPP administration.

4.67 The Commonwealth Auditor-General's mandate is limited, however, to reviewing the activities of Commonwealth agencies, since funds passed to or through the states cease, as a matter of law, to be Commonwealth funds.²⁹ This means that the Auditor-General cannot conduct performance audits of the activities of other levels of government or non-government agencies involved in SPP administration.

State Auditors-General

4.68 The state Auditors-General have varying mandates to conduct performance evaluations of SPP activity taking place within their own states. For example, while the

28 Auditor-General, *Annual Report 1993-94*, AGPS, 1994, p.26.

29 See Department of Finance, *Submission*, p. S773 (Vol. 3 of Submissions).

Commonwealth Auditor-General can review programs for their economy, efficiency and effectiveness, the South Australian Auditor-General can only review South Australian programs for their economy and efficiency, but not their effectiveness. The Queensland Auditor-General can review the systems that a Queensland public sector entity has in place to measure its own performance, but not the entity's actual performance. The Western Australian Auditor-General, however, has a similar performance audit mandate to the Commonwealth Auditor-General, but is also required to audit the performance indicators that all Western Australian public sector agencies are required to use.³⁰

Joint or Cooperative Performance Audits?

4.69 The former Commonwealth Auditor-General has argued that Commonwealth Auditors-General should be able to conduct performance audits of SPPs rather than being limited to just reviewing the Commonwealth component. As he explained:

My very strong view is that the Commonwealth Auditor-General should be able to follow the Commonwealth tax disbursement dollar right through. How we do it I do not care.³¹

The Auditor-General commented that such audits could be conducted by the Commonwealth and state Auditors-General conducting the audits with joint teams.³²

4.70 The Committee is sympathetic and notes the benefits that could be gained from holistic external reviews of SPP administration. However, state auditors-general have pointed out, that they, as with the Commonwealth Auditor-General, face legal restraints that make the conduct of joint audits practically impossible. As the Queensland Auditor-General explained, to conduct a joint audit:

30 See Office of the Auditor-General, Western Australia, *Public Sector, Performance Indicators 1993-1994, Report No. 7*, December 1994. The Auditor-General reports on the standard of the indicators reported, and not on the standard of performance reported by the indicators.

31 Auditor-General, *Transcript*, p. 36 (Canberra, 13 December 1994).

32 Auditor-General, *Transcript*, p. 36 (Canberra, 13 December 1994).

would be risking my neck... an Auditor-General is a creature of statute, as you would appreciate, and cannot do things that the statute does not permit ... I see no way that currently [an inquiry by the Queensland Auditor-General could be] reported upon, with all the best of grace, in the Commonwealth parliament. I do not think the Queensland Government would like it at all.³³

4.71 The Committee believes that the ultimate goal should be uniform audit legislation in all Australian jurisdictions. A less ambitious, but more achievable goal is the harmonisation of audit legislation to allow Auditors-General to conduct joint performance audits of SPPs. The practical difficulties associated with amending all audit acts suggest that neither of these objectives is likely to be realised without a coordinated approach by state governments.

4.72 In the short term, the Committee sees greater potential for coordinated audits between the Commonwealth Auditor-General and those state auditors-general who have a mandate to conduct performance audits. As the New South Wales Auditor-General explained:

we have no difficulty on our part... in working together in a back to back arrangement to audit programs involving specific purpose payments.³⁴

4.73 Coordinated performance audits conducted by Auditors-General, using complementary terms of reference would allow final reports, once tabled in the respective parliaments, to be compared and used to provide holistic external reviews. Examples of this form of cooperation are already occurring, most recently with cooperative performance audits of the Better Cities Program by the Commonwealth and Victorian Auditors-General.³⁵

33 Queensland Auditor-General, *Transcript*, p. 231 (Brisbane, 20 February 1995). See also Tasmanian Auditor-General, *Transcript*, p. 500 (Hobart, 21 April 1995); New South Wales Auditor-General, *Transcript*, p. 300 (Sydney, 21 February 1995); Western Australian Auditor-General, *Transcript*, p. 320 (Perth, 5 April 1995); Victorian Auditor-General, *Transcript*, p. 471 (Melbourne, 11 April 1995).

34 New South Wales Auditor-General, *Transcript*, p. 296 (Sydney, 21 February 1995).

35 The Better Cities Program is in fact a General Purpose Payment, although it has many of the attributes of an SPP.

4.74 Recommendation 13

The Council of Australian Governments should consider the possibility of harmonising the enabling legislation of the Commonwealth and state Auditors-General to allow for joint performance audits of SPP administration.

In the interim, the Auditor-General should investigate the possibility of conducting coordinated performance audits of SPPs with state Auditors-General.

Reporting to Parliament

4.75 The people who have an ultimate interest in the performance of SPPs are the individuals or groups who benefit directly, or indirectly, from SPP services. Indeed, the entire community has an interest in SPP performance as SPPs are funded in part or whole through general taxes.

4.76 The community's representatives are the Commonwealth and state parliamentarians, who as stewards of the public purse, have a particular interest in, and responsibility for, the high performance of SPPs.

4.77 The Committee strongly believes that, at the Commonwealth level at least, departments responsible for the administration of SPPs should ensure that Parliament, and hence the public, has easy access to accurate information on SPP performance.

Timeliness of Performance Information to the Commonwealth Parliament

4.78 As described in *Audit Report No. 21, 1994-95*, the joint ANAO/JCPA survey of SPP administration indicated that 7 of the 92 SPPs in existence in 1994 required the tabling of a separate report on the SPP in the Commonwealth parliament. The evidence suggests that, on the whole, there are long delays before such reports are tabled.³⁶

36 Auditor-General, *Audit Report No. 21, 1994-95*, pp. 14-17.

4.79 For example, 4 of the 7 SPPs required reports to be tabled 'as soon as practicable' after the end of the program year. The first of these reports for the program year ending in 1993 was tabled 12 months later.³⁷

4.80 The Committee is concerned at the extent of these delays and fully supports the recommendation by the Auditor-General that a time limit be specified for the provision of any separate reports to Parliament.³⁸

4.81 For those SPPs that are not required to table a separate report in parliament, information is provided on them in departmental annual reports and portfolio budget measures statements. This information, at least, is received in Parliament on a regular and timely basis.

Performance Information on SPPs in Annual Reports

4.82 Since 1993-94, departments have been required to provide program performance information in their annual reports. As detailed in the *Requirements for Departmental Annual Reports*, such information is:

*to focus 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.*³⁹

4.83 Departments are advised that 'descriptions of activities and outputs be minimised' and that it 'is their impact or effectiveness which requires discussion'.⁴⁰ Unfortunately, a review conducted in 1995, found that the

37 Program years for some SPPs are based on the calendar year, for others on the financial year.

38 Auditor-General, *Audit Report No. 21, 1994-95*, p. 16.

39 Department of the Prime Minister & Cabinet, *Requirements for Departmental Annual Reports*, March 1994, p. 5.

40 Department of the Prime Minister & Cabinet, *Requirements for Departmental Annual Reports*, March 1994, p. 7.

quality of performance information provided in Commonwealth annual reports was 'poor'.⁴¹

4.84 The Committee thinks it important that performance information on individual SPPs should also be tabulated as part of a department's wider performance reporting responsibilities, even if the information is initially incomplete. While performance information on the larger SPPs may be included in annual reports, the risk is that information on some of the smaller SPPs may not be differentiated from wider program or sub-program performance reporting.

4.85 The Committee believes that the solution is to include performance data on individual SPPs in the supplementary annual report papers available on request.

4.86 As part of the reporting requirements associated with annual reports, Commonwealth departments are required to have a range of specified supplementary information available to Parliament and the public on request. Departments are required to provide this information within 5 working days from the date of the request after annual reports have been tabled. The Committee believes it appropriate for performance data on each SPP to be available under such arrangements.

4.87 Recommendation 14

Annual report requirements for departments should be amended to require the following performance information to be collated separately for each SPP and made available to Members of Parliament, Senators and members of the public, within five working days from the date of the request after annual reports have been tabled:

- (a) *SPP objectives and associated performance indicators;*
- (b) *performance towards objectives during the reporting period; and*

41 DGR Consulting, *A Report to the Commonwealth Department of Finance Performance: Reporting in Commonwealth Annual Reports*, February 1995, p. 1.

- (c) *the use of any sanctions for failure to meet performance targets or non-compliance with the terms of SPP agreements.*

If objectives or performance indicators have not been developed for the SPP, then a timetable for their implementation should be included in the information available.

4.88 Subsection 25(7) of the *Public Service Act 1922* requires the Joint Committee of Public Accounts to approve the requirements for departmental annual reports, and the Committee will be pursuing this recommendation with the Department of the Prime Minister and Cabinet.

Catalogue of SPPs

4.89 Between 1990-91 and 1993-94, the Commonwealth-State Relations Secretariat of the Department of the Prime Minister & Cabinet (PM&C) compiled a catalogue of SPPs. The catalogue contained data on the levels of funding, purpose, authority, conditions of expenditure, reporting requirements, enforcement provisions and review arrangements for each SPP.

4.90 The catalogue's benefit was that it was the only source providing updated data on an SPP by SPP basis. In contrast, the only other source of such information is the *Budget Papers No. 3*, which sometimes divides data on individual SPPs by function and provides far less data.

4.91 The Department of Finance has taken over responsibility for the continuing publication of the catalogue and is planning to produce another edition before the end of 1995. The Committee welcomes its re-publication and believes it appropriate for the catalogue, in time, to include basic performance data for each SPP.

4.92 Recommendation 15

The Department of Finance should include basic performance data in the 'Catalogue of Specific Purpose Payments to the States and Territories', as the information becomes available from Commonwealth departments.

4.93 In summary, this chapter has discussed the difficulties of measuring SPP performance and holding agencies accountable for their performance. The next chapter examines another vital form of accountability- accountability for inputs.

FINANCIAL ACCOUNTABILITY

'we are advocating that the Commonwealth should be able to seek satisfaction about the use of its resources from a cooperative arrangement between the state audit process and the Commonwealth audit process...' (New South Wales Auditor-General¹)

Introduction

5.1 The previous chapter focused on measuring performance and holding parties to SPP agreements accountable for that performance. Another form of accountability is the demonstration that SPP funds have been spent as intended and not misappropriated. This form of accountability is often referred to as 'financial' accountability, as distinct from 'performance' accountability.

5.2 A number of SPPs require the parties to the agreements to provide financial data to the Commonwealth to allow determination of future funding on a needs basis. For the purposes of the chapter, the Committee considers this form of financial data as most closely allied to 'performance' information as its collection and use will be an integral part of program management. Such data should be considered, primarily, as an aide to planning rather than for the form of accountability discussed in this chapter.

5.3 The Committee wishes to state at the outset that it has not received any evidence of financial impropriety in the administration of SPPs or any evidence of systemic failures in the processes for accounting for SPP expenditure. The Committee does believe, however, that some of the processes may be unnecessarily cumbersome and detailed.

¹ New South Wales Auditor-General, *Transcript*, pp. 297-98 (Sydney, 21 February 1995).

Requirements for Financial Accountability

5.4 Not all SPPs require parties receiving SPP funds to demonstrate how Commonwealth funds were expended. However, accountability for those that do require such a demonstration, usually involves the furnishing of 'statements of expenditure' and/or 'certifications of expenditure' to the Commonwealth.

5.5 Statements of expenditure are financial statements to the Commonwealth detailing how SPP funds have been spent, while certifications of expenditure are evidence to the Commonwealth in an agreed form certifying that the funds were spent in a manner consistent with the SPP agreement. Certifications are usually supplied by a state government officer or a state Auditor-General.²

Delays in the Provision of Statements and Certifications of Expenditure

5.6 The joint ANAO/JCPA survey of SPP administration indicated that the Commonwealth required statements of expenditure for approximately 60% of SPPs and certifications of expenditure for approximately 75% of SPPs. One of the notable features uncovered by the survey was the delay in which the statements and certifications are forwarded to the appropriate Commonwealth departments. The extent of the problem is fully discussed in the Auditor-General's report on the survey results.³

5.7 As a result of these delays, the Auditor-General recommended that departments institute procedures to ensure that statements and certifications of expenditure are provided when required and late ones followed up.⁴ The Auditor-General also recommended that, where required, statements and certifications be provided within 6 months of the end of the financial year.⁵

² See Auditor-General, *Report No. 21, 1994-95*, p. 101.

³ See Auditor-General, *Report No. 21, 1994-95*, pp. 9-14.

⁴ Auditor-General, *Report No. 21, 1994-95*, p.14.

⁵ Auditor-General, *Report No. 21, 1994-95*, p.13. The JCPA has previously recommended that certifications be provided by a

5.8 The need for such deadlines was backed up by evidence to the Committee by the Western Australian Auditor-General who observed that 'because specific time lines are an exception on these certifications, they tend to be put aside'.⁶

5.9 However, the Committee has some sympathy with the states or other agencies that are required to provide statements and certifications for more than one SPP, as requirements vary from agreement to agreement. As the Queensland government commented:

The accounting and accountability requirements of these agreements are diverse and require considerable effort in the progressive tracking of revenues and costs and in providing audit acquittal...⁷

5.10 The problems for states are illustrated by the varying requirements for the submission of certifications of expenditure for just one department as detailed in Table 5.1.⁸ Bear in mind that most states will receive funding for most of these SPPs. This confused situation should not have arisen in the first place as the department's guidebook on grants, requires certifications to be forwarded to the department within 5 months of the completion of each grant year.⁹

specified date or within a specified period. JCPA, *Report 296, The Auditor-General: Ally of the People and Parliament*. AGPS, 1989, p. 126.

6 Western Australian Auditor-General, *Transcript*, p. 322 (Perth, 5 April 1995). For specific examples from another state, see Northern Territory Auditor-General, *Submission*, p. S10 (Vol. 1 of Submissions)

7 Queensland Government *Submission*, p. S155 (Vol. 1 of Submissions).

8 Compiled from returns to the joint ANAO/JCPA survey of SPP administration.

9 Department of Human Services & Health, *Grant Administration Processes*, December 1989, pp. 25-26.

Table 5.1
Deadlines for Provision of Certifications of Expenditure by State Governments to the Commonwealth Department of Human Services & Health after the end of each grant year.

- 3 SPPs required certifications 'as soon as practicable';
- 1 SPP required certifications within 2 months;
- 2 SPPs required certifications within 3 months;
- 2 SPPs required certifications within 4 months;
- 13 SPPs required certifications within 5 months;
- 1 SPP required certifications within 6 months; and
- 2 SPPs did not specify when they should be provided.

5.11 The Committee believes that inconsistent requirements within departments make it hardly surprising that statements and certifications are often overdue.

Certifications of Expenditure and Materiality

5.12 Current auditing practices and standards take a risk based approach of only reviewing significant, or 'material' amounts detailed in financial statements. This is on the basis that it is not cost or time effective to check and account for every cent. Information is deemed to be material under the Australian accounting standards 'if its omission, non-disclosure or miss-statement would cause the financial statements to mislead users of the statements when making evaluations or decisions'.¹⁰

5.13 One irritation and cost to state Auditors-General, is that Commonwealth departments require certifications for relatively small amounts of money that are not considered material under the accounting standards. As the Queensland Auditor-General explained:

You would have to ask the question why the Commonwealth would want to bother with such trivial amounts and want them to be accounted for to the nth degree. ... It is trifling stuff. It is less than petty cash in terms of the

10 Australian Accounting Standard No. 5.

*Commonwealth... they have to start looking at just what it is they are imposing on everybody.*¹¹

5.14 This point was reinforced by the Victorian Auditor-General, who recounted:

*this silly situation of us doing an audit of a billion dollar organisation and then having to go back later and give a certification on five or six thousand dollars.*¹²

5.15 These concerns suggest that there is a need for Commonwealth departments to assess the auditing requirements inserted in SPP agreements and the obligations these requirements place on the other parties to SPPs.

Duplication of Auditing Effort

5.16 It also seems to Auditors-General, to be a duplication of effort that Commonwealth departments ask for separate audit certifications for funds that have already been audited as components of state agency financial statements, as the Queensland Auditor-General explained:

*The Commonwealth can get a lot of information on the public accounts of the state which I certify ... I do not know why they want separate certifications... I do not think Canberra sometimes looks to very readily available avenues certified by auditors-general but which are in the public accounts of the state.*¹³

11 Queensland Auditor-General, *Transcript*, p. 235 (Brisbane, 20 February 1995).

12 Victorian Auditor-General, *Transcript*, p. 469 (Melbourne, 11 April 1995).

13 Queensland Auditor-General, *Transcript*, pp. 241-42 (Brisbane, 20 February 1995). See also: Queensland Government, *Submission*, pp. S163-64 (Vol. 1 of Submissions); Queensland Government, *Transcript*, p. 225 (Brisbane, 20 February 1995); New South Wales Auditor-General, *Transcript*, p. 298 (Sydney, 21 February 1995).

5.17 This view was echoed by the South Australian government:

*often the state has its own reporting requirements, which could be used, but quite often there are parallel reporting requirements.*¹⁴

5.18 The Commonwealth, in return, justifies the requirement for separate statements and certifications on the grounds that state financial statements often do not indicate the Commonwealth SPP funding component of state programs and because the levels of materiality relevant to the parties may differ.¹⁵

The Committee's Assessment of Existing Financial Accountability Arrangements

5.19 As a first principle, the Committee believes that it is fundamental for the Commonwealth to be assured SPP funds are spent on the basis on which they were allocated. It appears, however, that the financial accountability arrangements for many SPPs reflect the traditional Commonwealth focus on input controls and the use of cash based accounting. The Committee believes that, based on the comments of Auditors-General and departmental best practice, it is possible to streamline SPP financial accountability mechanisms and still allow a full acquittal of SPP funds.

5.20 In essence, the Committee believes that the Commonwealth should be satisfied with the audited and appropriately annotated annual financial statements of SPP fund recipients for SPP acquittal purposes. If this were to occur, then there would be no need for agencies receiving SPP funds to provide separate statements and certifications of expenditure for the funds. In developing its recommendations, the Committee has drawn heavily on the accountability arrangements for higher education institutions which are

14 South Australian Government, *Transcript*, p. 402 (Adelaide, 6 April 1995).

15 See Department of Finance, *Transcript*, p. 65 (Canberra, 13 December 1995).

funded, in part, via SPPs through the states which are administered by the Department of Employment, Education & Training (DEET).¹⁶

5.21 Under these arrangements, DEET, state governments, the Auditors-General and the universities agreed that the institutions could prepare a single form of annual financial statement that would satisfy the accountability requirements of DEET, the state agencies as well as the applicable Australian accounting concepts and standards. Particular details required by DEET for acquittal of SPP grants are detailed in a Note to the annual statements. The Note is audited as part of the statements.¹⁷

5.22 The financial statements for universities are audited by state Auditors-General and the Committee is reassured that they found the arrangements satisfactory, as the Queensland Auditor-General expressed:

*If you are trying to find some model for this accountability business of special purpose payments... DEET really did do a good job... the burden of preparation has gone, and the additional burden on auditors has gone. There are certainly additional notes to the financial statements, which have been put there to satisfy DEET, but the universities do not worry about it and neither do we.*¹⁸

5.23 The advantages of applying similar arrangements across other SPPs are numerous. The agency receiving SPP funding does not have to prepare separate accounts for the Commonwealth, the audit task is not duplicated and the Commonwealth can be assured that the statements will be

16 The Higher Education-Recurrent and the Higher Education-Research SPPs.

17 Department of Employment, Education & Training, Higher Education Division, *Instructions for the Preparation of Annual Financial Reports by Australian Higher Education Institutions*, February 1995.

18 Queensland Auditor-General, *Transcript*, pp. 233-34 (Brisbane, 20 February 1995). See also New South Wales Auditor-General, *Transcript*, p. 302 (Sydney 21 February 1995); South Australian Auditor-General, *Transcript*, pp. 420-21 (Adelaide, 6 April 1995); Tasmanian Auditor-General, *Transcript*, p. 493 (Hobart, 21 April 1995).

prepared promptly. There is thus a savings in time, effort and cost for all parties and one set of documents that satisfy the financial accountability requirements of all parties.

5.24 Furthermore, the increasing adoption of accrual reporting in accordance with nationally prescribed accounting standards will ensure that the audited financial statements of grant recipients, with minor adaptations in the form of additional Notes, will be consistent enough and sufficient to acquit the Commonwealth's SPP outlays.

5.25 Such arrangements, however, require the parties to agree on the minimum details required in the Notes and on associated levels of materiality. The Committee believes that the details in the Notes should be the minimum necessary to satisfy the Commonwealth's acquittal requirements.

5.26 There are other initiatives being tried along these lines, as one non-government agency receiving funding from a number of state and Commonwealth programs, including the HACC SPP, explained:

*they are all wanting different reporting formats. We would think that somewhat wasteful and we have raised that with the [Western Australian] health department which has agreed... to see if we cannot agree on a common reporting standard that meets its requirements and the Commonwealth requirements, yet is consistent with our business needs.*¹⁹

5.27 The Committee welcomes such initiatives and, accordingly, makes the following recommendations.²⁰

19 Silver Chain Nursing Association, *Transcript*, p. 336 (Perth, 5 April 1995).

20 The JCPA has previously recommended that Commonwealth agencies consider whether the audited financial statements of SPP grant recipients would satisfy the Commonwealth's financial accountability requirements. See JCPA, Report 296, *The Auditor-General: Ally of the People and Parliament*, p. 126.

5.28 Recommendation 16

Commonwealth departments administering SPPs should undertake negotiations with the other parties to SPP agreements to adopt a single form of financial statement that, when audited, will satisfy:

- (a) *the annual financial reporting requirements, as determined by the relevant Australian accounting standards and accounting concepts, and any other requirements for the agency or agencies receiving Commonwealth SPP funds; and*
- (b) *the minimum accountability, reporting and auditing requirements necessary for the acquittal of SPP grants by the Commonwealth.*

Furthermore, the Department of Finance and the Commonwealth and state Auditors-General should be directly consulted during the negotiation process.

5.29 Recommendation 17

The requirements outlined in Recommendation 16 should be adopted for all new SPP agreements.

The Role of State Auditors-General

5.30 As already mentioned, most certifications of expenditure are provided by state government officers. However, the results of the joint ANAO/JCPA survey of SPP administration indicate that, in 1994, state Auditors-General provided certifications for 18 SPPs. Furthermore, the survey indicated that the agreements for 11 of these 18 SPPs required the Auditors-General to provide the certification.²¹

5.31 State Auditors-General were concerned that they had not been consulted before they were obliged by some SPP agreements to provide certifications.²² While the Auditors-

21 See Auditor-General, *Report No. 21, 1994-95*, pp. 100-01.

22 See: Northern Territory Auditor-General, *Submission*, p. S3 (Vol. 1 of Submissions); Queensland Auditor-General, *Submission*, p. S17 (Vol. 1 of Submissions); Western Australian Auditor-General, *Submission*, p. S21 (Vol. 1 of Submissions); South Australian

General admitted that this was less of a problem now than in the past, the joint ANAO/JCPA survey indicates that they were not consulted about providing certifications for 6 SPPs.²³

5.32 This is despite Finance Direction 13F which states that Commonwealth departments must not attempt to impose tasks on state Auditors-General for the audit or acquittal of program expenditures, unless the state Auditors-General have first agreed to accept the task.²⁴

5.33 The worst offender appears to be the Department of Transport, which with 2 SPPs in 1994, ignored Finance Direction 13F for both agreements.²⁵

5.34 The Commonwealth Auditor-General has reinforced the importance of Direction 13F. In his report on the results of the joint ANAO/JCPA survey of SPP administration, the Auditor-General reminded Commonwealth departments to ensure that relevant staff are aware of the statutory independence of state Auditors-General and that adequate consultation is undertaken before nominating state Auditors-General in any agreements.²⁶

5.35 The Committee too is concerned that Finance Direction 13F is not being applied by some Commonwealth departments and can only endorse the Auditor-General's recommendation that departments respect the statutory independence of state Auditors-General.

Auditor-General, *Submission*, p. S136 (Vol. 1 of Submissions); New South Wales Government, *Submission*, p. S234 (Vol. 1 of Submissions).

23 For comments by Auditors-General on this issue see: Tasmanian Auditor-General, *Transcript*, p. 493 (Hobart, 21 April 1995); South Australian Auditor-General, *Transcript*, p. 415 (Adelaide, 6 April 1995); Queensland Auditor-General, *Transcript*, p. 238 (Brisbane, 20 February 1995).

24 Department of Finance, *Finance Direction, Section 13, Special Procedures & Payment Conditions, Audit/Acquittal of Payments made to or Through State Government Agencies*, Direction 13F.

25 Australian Land Transport Development Program (National Highway Funding) SPP & Funding for Transport Infrastructure (Rail) SPP.

26 Auditor-General, *Audit Report No. 21, 1994-95*, pp. 13-14.

Cash Management

5.36 One of the basic features of SPPs is that they involve the transfer of funds from the Commonwealth to other levels of government or non-government agencies. For some SPPs the sums involved are comparatively minor, while others can involve the transfer of hundreds of millions of dollars several times a year.

5.37 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.

Impact on the Commonwealth

5.38 Several reviews have recently been undertaken on the Commonwealth's cash management practices with a view to minimising its recourse to short term borrowing.²⁷ By better managing the timing of SPP payments, it should be possible to significantly reduce public debt interest. The Department of Finance, for example, recommends that SPP payments should, unless impractical, be on the working day immediately following a taxation revenue peak (normally the 7th and 21st of each month).

5.39 The Committee believes, therefore, that it is important that Commonwealth negotiators be aware of the Commonwealth's flow of receipts and expenditure and choose appropriate dates for regular SPP payments to be paid on. To a similar end, the Auditor-General has recommended that, in future, departments negotiating SPP agreements liaise with the Department of Finance on appropriate payment schedules and dates to minimise the requirements for short term borrowing.²⁸

27 See: Auditor-General, *Audit Report No. 22, 1993-94, Cash Management in Commonwealth Government Departments*, AGPS, 1993; JCPA, *Report 3/10, Cash Matters: Cash Management in the Commonwealth*, AGPS, October 1995.

28 Auditor-General, *Audit Report No. 21, 1994-95*, p. 34.

5.40 Triggered in part by the joint ANAO/JCPA survey of SPP administration, the Department of Finance has established a task force on payments to statutory authorities and the states to examine current practices and advise on a suitable policy framework for making payments to these groups.²⁹ The Task Force is due to report to the Minister for Finance by 31 December 1995.

5.41 Recommendation 18

Commonwealth departments administering existing SPP agreements should liaise with the Department of Finance to determine whether payments are being made on an optimal schedule and dates to minimise the Commonwealth's recourse to short term borrowing.

Impact on SPP Recipients

5.42 Any improvement in the Commonwealth's cash management practices from the Commonwealth's perspective is likely to have an adverse impact on the interest windfall that SPP recipients, including state governments, can gain by investing payments before they are needed. The University of Tasmania explained the impact of the Department of Employment, Education & Training 'improving' its cash management practices, by making more frequent, but smaller payments to universities:

From our point of view, as a system, \$20 million disappeared simply because of a change in the pattern in funding... It is not a criticism to say institutions have not used the money for six months. Institutions are very dependent upon investment income generated through their operating grant. It may not be the most desirable system, but it is a current fact of life.³⁰

5.43 The joint ANAO/JCPA survey of SPP administration indicated that in 1994, SPP payments in advance were made with a value of at least \$4.2 billion and up

29 Task Force on Payments to Statutory Authorities and the States, *Issues Paper*, August 1995.

30 University of Tasmania, *Transcript*, p. 527 (Hobart, 21 April 1995)

to \$9.1 billion.³¹ There are thus considerable gains or losses to be made by the parties to SPP agreements, depending on when payments are made.

5.44 The Committee accepts that there is a potential for SPP grant recipients to lose interest benefits if the Commonwealth 'retains' the interest benefits. However, the Committee believes that interest windfalls are, in effect, a hidden subsidy for the fund recipients. If recipients need the interest gained to reach performance targets then they should be funded directly via an appropriate increase in the SPP payments.

5.45 However, the Committee notes that the terms of reference for the Task Force require it to examine whether recipients will be adversely affected by any recommended changes in payment procedures and the impact of any recommended changes on program delivery.

Payments Through the States

5.46 In practice, payments of funds from SPPs through the States are paid by the Commonwealth into special accounts operated by state governments. The states then forward the finances onto the grant recipients as requested by the Commonwealth. Payments of this form are primarily for distribution to non government schools' associations and local governments.

5.47 Several non-government schools' associations expressed concern that state governments have delayed the transfer of Commonwealth SPP funds to them.³² The extent of the problem varied, from being a 'common' problem to an 'occasional' problem and 'a little unacceptable in this day and age'.³³

31 Auditor-General, *Audit Report No. 21, 1994-95*, pp. 33-35.

32 South Australian Commission for Catholic Schools, *Submission*, p. S62 (Vol. 1 of Submissions); Association of Independent Schools of Victoria, *Submission*, p. S374 (Vol. 2 of Submissions); and National Council of Independent Schools' Associations, *Submission*, p. S 199 (Vol. 1 of Submissions)

33 Association of Independent Schools of Victoria, *Transcript*, p. 474 (Melbourne, 11 April 1995).

5.48 The extent of the problem appears dependent on the practices of the different state governments and will thus vary from state to state. Similar delays, and variations between states, can also potentially occur in the transfer of Commonwealth funds to local governments via the *General Purpose Financial Assistance to Local Government SPP*, although the Committee has only received informal advice on this situation. Not all states appear to be withholding funds through the states to gain interest windfalls. Nevertheless, given the amounts involved, the Committee believes that the issue warrants attention from the appropriate Commonwealth departments. Accordingly, the Committee has made the following recommendation.

5.49 Recommendation 19

Commonwealth departments responsible for the administration of SPPs through the states should investigate whether there are any unnecessary delays in the transfer of SPP funds through the states.

5.50 This chapter has suggested ways of optimising the processes for ensuring the financial accountability of Commonwealth funds expended via SPPs. The next chapter will look at ways to optimise the structure of SPPs to ensure that services are delivered as efficiently as possible.

6

THE STRUCTURE OF SPP AGREEMENTS

'No amount of diligent program administration will overcome the limitations of a poorly designed program.'
(Department of Finance¹)

Introduction

6.1 The preceding chapters have focused on *who* should carry out SPP activities, *what* SPPs should be trying to achieve, and *how* that should be measured, both in terms of performance and financial accountability.

6.2 This chapter looks at the structures of the SPP agreements themselves, examining the scope and size of SPPs and whether it is desirable to have core requirements, or protocols for every SPP.

SPP Size

Small SPPs

6.3 While there are several SPPs with Commonwealth contributions of over \$1 billion per year, just under 40% have Commonwealth contributions of less than \$10 million per year and some half dozen have Commonwealth contributions of less than \$1 million per year. Many of the SPPs distribute the Commonwealth contributions to a number of different

agencies, with the result that individual agencies may receive relatively small amounts of money.² For example, the Northern Territory indicated that in 1993-94, almost 50% of SPP grants it received were for amounts of less than half a million dollars.³

6.4 The Committee is concerned that the administrative burden associated with administering small SPPs or the small components of large SPPs can be unduly onerous and disproportionate to the size of the grant. This problem is equally applicable to non-government service providers and the governments of smaller states.

6.5 As an example of the issue, a schools association told the Committee that :

It is worth noting,... that administration costs associated with a \$1, 500 program element/component of [the National Equity Program for Schools SPP] sometimes requires more administration than a \$1 million General Recurrent Grant... for school accountants/bursars.⁴

6.6 The poor economies of scale associated with small SPPs are recognised by Commonwealth departments. For example, an evaluation of the *Unaccompanied Refugee Minors: Supervision & Welfare Support SPP* administered by the Department of Immigration & Ethnic Affairs commented that:

There comes a time in any program..., particularly a Commonwealth/States Cost-Sharing one, when administrative overheads relative to program size force even the most well-intentioned administrators to recommend cessation.⁵

¹ Department of Finance, *Submission*, p. S619 (Vol. 2 of Submissions).

² See Appendix V.

³ Northern Territory Government, *Submission*, p. S41 (Vol. 1 of Submissions).

⁴ Australian Association of Christian Schools, *Submission*, p. S131 (Vol. 1 of Submissions); Australian Association of Christian Schools & National Council of Independent Schools' Association, *Transcript*, p. 646 (Canberra, 28 July 1995). See also Association of Independent Schools of Victoria, *Submission*, p. S374 (Vol. 2 of Submissions).

⁵ Department of Immigration & Ethnic Affairs, *Review of Unaccompanied Refugee Minors Program Including Commonwealth/State Cost-Sharing Agreement: Findings and Recommendations*, June 1994, p. 35.

6.7 In some ways, the problems for small states are unavoidable. Data collection requirements and conditions may be developed by the Commonwealth with large grants to the bigger states in mind. The same arrangements used for the financial shares going to the smaller states may seem unnecessarily complex. The Northern Territory Government, for example declined to accept Commonwealth grants under the *Social Housing Subsidy Program SPP* because of its reporting requirements. As a Northern Territory official explained:

SPPs - most of them - are on an equal per capita basis... so we end up getting SPPs of \$50,000 or \$60,000. There was one SPP we actually rejected recently, in which we would have got \$77,000 when New South Wales got \$20 million. For \$77,000, 14 pages of reporting requirements were just not worth the effort.⁶

6.8 As has been discussed in previous chapters, accountability in the context of SPP administration takes two principal forms - accountability for performance and accountability for finances.

6.9 In terms of financial accountability, the Committee believes that its recommendation that appropriately annotated annual financial statements be accepted for SPP acquittals, will reduce the costs of financial compliance, both in an absolute and proportional sense. This will occur, if only because the proportion of very small grants (less than \$50 000 per annum) absorbed by the fixed costs associated with preparing separate statements and certifications of expenditure will no longer need to be spent.

6.10 The main disadvantages of scale with small SPP grants, however, appear to lie in the costs and efforts of collecting the performance data required by the Commonwealth. To the Committee's mind, there are two approaches to this problem, either ensure that data collection requirements are proportional to the size of grants and/or merge small SPPs into larger ones.

6 Northern Territory Government, *Transcript*, p. 357 (Perth, 5 April 1995). It was in fact 22 pages of reporting requirements: Correspondence: Senior Director, Programs & Financial Relations, Northern Territory Government to Secretary, JCPA, 18 April 1995.

Accountability and Proportionality

6.11 As a general principle, the Committee believes that accountability for performance should be proportional to the size of grants. It is, however, not appropriate to prescribe a sliding scale of accountability verses payment size for small SPPs as the circumstances for each grant will vary.

6.12 The Committee can only reiterate the principle outlined in chapters 4 and 5 that SPP data collection be limited to the minimum amount necessary to assess performance and financial accountability. This places the onus on Commonwealth departments to tailor data collection requirements to the situation. As an official from the Department of Human Services & Health conceded:

We have to try and be a bit more flexible when it comes to implementing programs in the smaller states and territories.⁷

6.13 The ultimate test of course, of whether reporting details are too onerous, is whether parties enter the SPP agreement, as the New South Wales Auditor-General pointed out:

you will soon hear if the specific purpose payment is less than the administrative costs because they will not take it.⁸

The Committee would be concerned if situations became so bad that SPP grants are rejected simply on the basis of administrative costs.

6.14 As mentioned earlier in the chapter, the other solution to the problem of excessive administrative costs associated with smaller SPPs is to merge them into larger SPPs. This practice is known as 'broadbanding'.

7 Department of Human Services & Health, *Transcript*, p. 588 (Canberra, 28 July 1995).

8 New South Wales Auditor-General, *Transcript*, p. 304 (Sydney, 21 February).

Broadbanding

6.15 A number of state governments have pressed that small SPPs be broadbanded, particularly in the health and community services areas where there are a plethora of small SPPs.

6.16 An indication of the number of small SPPs in the health area is given in Table 6.1 which, in the case of Queensland, illustrates the typical pattern of a state receiving funding from a few large SPPs and a multiple of smaller ones. In a similar example, Tasmania received 31 individual SPP payments relating to health services in 1993-94, all of which had their own administrative, reporting and audit requirements. Thirty of these 31 payments, in total, accounted for less than 4% of the Tasmanian government's spending on health in that year.⁹

6.17 That the problem is particularly acute in the health and community services areas, reflects the fact that approximately a third of all SPPs are concentrated in these areas. State governments, and not just from the smaller states, support moves to broadband them, particularly since they are in within the same portfolio.¹⁰

9 Secretary, Tasmanian Department of Treasury & Finance. *Commonwealth Financial Relations: A paper presented to the Commonwealth Treasury Seminar*, 2 June 1995, Canberra, p.13. See also Northern Territory Government, *Submission*, p. S43 (Vol. 1 of Submissions).

10 Queensland Government, *Submission*, p. S163 (Vol. 1 of Submissions); Western Australian Government, *Submission*, p. S797 (Vol. 3 of Submissions); Tasmanian Government, *Submission*, p. S837 (Vol. 4 of Submissions).

Table 6.1
Specific Purpose Payments Relating to Health Services
in Queensland, 1994-95¹¹

Specific Purpose Payments	\$,000	%
Medicare Base Grant	639,317	68.0
Other Medicare	191,993	20.4
Medicare Related Payments	21,168	2.3
Home and Community Care	16,400	1.7
Transfer Pathology Labs	15,100	1.6
Dental Program	11,440	1.2
High Cost Drugs	10,510	1.1
Breast Cancer	6,909	0.7
Blood Transfusion Services	6,582	0.7
Funds to Combat AIDS	4,503	0.5
Other Health	3,247	0.3
Drug Education Campaigns	3,231	0.3
Magnetic Resonance Imaging	2,663	0.3
National Mental Health	2,140	0.2
Immunisation HIB Disease	1,653	0.2
Aged Care Assessment	1,589	0.2
Cervical Cancer Screening	832	0.1
Medical Specialty Centres	394	0.0
Youth Health Services	390	0.0
TOTAL SPPs	940,061	100.0

Justification for Small SPPs

6.18 Despite the potential administrative inefficiencies associated with small SPPs, particularly for the smaller states, the Commonwealth sees a continuing justification for some retaining a separate identity. As the Department of Human Services & Health described, when explaining the justification for not broadbanding the *National Program for Early Detection of Breast Cancer* SPP with other SPPs:

Public health, as a broad and general umbrella, does not have quite the same political attractiveness as being able to say, 'We're doing something about breast cancer.' While, on the one hand, I think there are arguments for broadbanding

¹¹ Queensland Government, *Submission*, p. S154 (Vol 1 of Submissions).

and we should certainly look at them and see what the scope is, we do need to bear in mind that in the real world there are reasons for there being separate programs.¹²

6.19 The Committee notes that some small grants can have significant benefits and accepts that several departments run very disparate programs that would be inappropriate to merge. For example, broadbanding the *Payment to the Northern Territory in Lieu of Uranium Royalties* SPP and the *Tasmanian Wheat Freight Subsidy* SPP, which are both administered by the Department of Primary Industries & Energy, would be unlikely to bring administrative savings.

6.20 To the Committee, it appears that there are truly 'specific' SPPs that should not be broadbanded. That is no reason though, not to ensure that performance and financial accountability requirements are consistent, an issue that is taken up in greater detail below.

6.21 However, despite the justifications for some small SPPs to stay separate, there does seem considerable potential for broadbanding small ongoing SPPs that are complementing larger SPPs, particularly in the health, community services and education areas.

Broadbanding Reforms

6.22 To try and reduce the number of SPPs in the health area, a joint Commonwealth-state working party had been examining the potential for broadbanding SPPs, although its work is being subsumed into the broader COAG induced reforms.¹³

'Sunset' Clauses for Small SPPs

6.23 One compromise option is to include sunset clauses in small SPPs. Small SPPs could be established to address

12 Department of Human Services & Health, *Transcript*, p. 589 (Canberra, 28 July 1995).

13 A Commonwealth-state working group established under Clause 9 of the Medicare Agreement. For a list of the SPPs under consideration for broadbanding see Department of Human Services & Health, *Submission*, pp. S489-92.

particular issues. After a set period, the SPP could be reviewed. If there was a demonstrated need for the program to be continued, then it could be broadbanded into an allied SPP. This could be done on the basis that an on going program would no longer need specific 'start up' funds and could be financed by recurrent funding associated with a larger SPP.

6.24 As a witness from the Department of Human Services & Health described:

There is a real issue about whether something that is a specific purpose at a particular point in time... needs to be a specific purpose in perpetuity. Conceivably, with some of these things, the need for specific attention might pass; with others, once there is an entrenched acceptance, they could lose their specific purpose flavour.¹⁴

6.25 The objectives and performance indicators of the original SPP could be retained, but its identified funding bundled with funding for the ongoing and thence larger SPP. In this way, the service providers would still be accountable for attainment of the original agreed objectives, but have the flexibility to allocate the pooled resources as they saw fit to best meet the objectives.

6.26 Accordingly, the Committee makes the following recommendations.

6.27 Recommendation 20

Commonwealth departments administering SPPs should investigate the possibility of broadbanding existing SPPs within their portfolios. The broadbanding should be considered on the basis of retaining the objectives and performance indicators of the original SPPs but pooling the Commonwealth funding. Service providers should have the flexibility to use the pooled funds as they see fit to meet the new combined objectives.

14 Department of Human Services & Health, *Transcript*, p. 590 (Canberra, 28 July 1995). See also Northern Territory Government, *Transcript*, p. 347-48 (Perth, 5 April 1995).

6.28 Recommendation 21

When Commonwealth departments negotiate new SPP agreements, consideration should be given to inserting 'sunset clauses', whereby new SPPs are assessed after a pre-determined period with a view to broadbanding them with existing, allied SPPs. Such broadbanding should be considered with the principle of maintaining separate objectives and performance indicators, but pooling Commonwealth funding.

6.29 One of the factors that could make broadbanding SPPs a more simple task is if SPP agreements had certain core features in common. To achieve this would demand a generic SPP agreement or a set of protocols. The potential of generic agreements and protocols is the subject of the next section.

SPP Protocols

6.30 The purpose of SPP protocols is to provide assistance for the negotiation and administration of SPPs, with the aim of ensuring that there are as few unnecessary inconsistencies between agreements as possible. In essence, SPPs would consist of 'standard' agreements, modified as little as possible, but where necessary to meet individual circumstances.

6.31 State governments have expressed mixed feelings about the desirability of protocols. The ACT government 'strongly supports' their use; the Western Australian government believes there 'is scope to develop a common set of principles'; while the Queensland government believes SPPs should 'be standardised to the fullest possible extent consistent with overcoming the diversity of present agreements'.¹⁵

15 ACT Government, *Submission*, p. S736 (Vol. 3 of Submissions); Western Australian Government, *Submission*, p. S769 (Vol. 3 of Submissions); Queensland Government, *Submission*, p. S656 (Vol. 3 of Submissions).

6.32 The Northern Territory government is more cautious, however, noting that:

The proposals seen to date with regard to common sets of principles or protocols for SPPs have adopted the highest common denominator in terms of controls, intrusiveness and reporting requirements... As protocols which adopt the lowest common denominator... are unlikely to be acceptable to the Commonwealth, the adoption of common sets of protocols is not likely to be an attractive option for the NT.¹⁶

6.33 The Commonwealth produced a draft protocol for SPPs to the states that was scheduled to be presented to the April 1995 COAG meeting. However, state governments rejected the protocol on the basis that it was overly prescriptive.¹⁷

A Commonwealth Approach

6.34 The Committee is concerned that a Commonwealth wide protocol could become a reductive check list, that would not take into account the diversity of issues addressed by SPPs.

6.35 What is needed, in the Committee's opinion, are guidelines for use by the Commonwealth, at least, that promote consistency and best practice. It follows that guidelines should include at least the following:

- a checklist of broad principles applicable to good SPP design and administration (such as identifying performance indicators for each objective);
- procedures for the process of SPP negotiation (mentioning Finance Direction 13F for example); and
- examples of best practice for all facets of SPP design and administration.

6.36 The Committee believes that Commonwealth departments should design guidelines for use within their own

16 Northern Territory Government, *Submission*, pp. S631-32 (Vol. 3 of Submissions).

17 See Department of Prime Minister & Cabinet, *Transcript*, pp. 19-20 (Canberra, 13 December 1994); Victorian Government, *Submission*, p. S826 (Vol. 3 of Submissions); Western Australian Government, *Submission*, p. S804 (Vol. 3 of Submissions).

portfolios that satisfy the first two points.¹⁸ Such departmental guidelines should draw on the Auditor-General's best practice guide for the administration of grants.¹⁹ The collation of examples of best practice should reflect the experience of all Commonwealth departments and be compiled by a central agency. Accordingly, the Committee makes the following recommendations.

6.37 **Recommendation 22**

Commonwealth departments administering SPPs should ensure that they have departmental guidelines applicable for the negotiation of SPPs, the drafting of SPP agreements and the development of best practice administrative arrangements.

6.38 **Recommendation 23**

The Department of Finance should assess and compile examples of best practice SPP agreements (or components thereof) and associated administrative arrangements. These examples should be distributed to Commonwealth departments and be available to other interested parties.

18 A number of departments already have guidelines for the negotiation of grants, which could be supplemented with the additional information suggested by the Committee. Several states have developed, or are developing, their own guidelines for grant negotiation and administration.

19 Auditor-General, *Best Practice Guide for the Administration of Grants*, AGPS, 1994.

7

CONCLUSION

'There is a commitment at all levels of government that there is room for improvement'. (South Australian Government!)

Introduction

7.1 During the course of its inquiry, the Committee has noted the first applications of an emerging consensus on the need for, and direction of, SPP reform. In this regard, the decisions of the COAG meeting in April 1995 to reform the health, community services and housing arrangements between the Commonwealth and the states marks a watershed.

The 'Ideal' SPP

7.2 The Committee has argued that many SPPs need to be considerably reformed if they are to be efficient, effective and provide high quality service. Throughout this report, the Committee has suggested a number of features that it thinks, when taken together, characterise an 'ideal' SPP agreement. Such an agreement would incorporate the following features:

- objectives expressed in terms of measurable outcomes;
- performance indicators linked to each objective;
- clear roles and responsibilities for each party to the agreement;
- primary accountability to the Commonwealth being for outcomes achieved rather than inputs and processes;
- details of performance incentives and graduated sanctions;

1 South Australian Government, *Transcript*, p. 405 (Adelaide, 6 April 1995).

- data collection requirements linked to each performance indicator; and
- Commonwealth acquittals based on audited annual financial statements.

7.3 It may be appropriate for these features to be incorporated into a single agreement that responds with flexibility to all regional variations. Alternatively, given the complexity of some current SPP agreements, it may be necessary for multilateral SPP agreements to be complemented by bilateral agreements between the Commonwealth and the individual parties to the agreements. Regardless of the number of agreements, the Committee believes that these features, when incorporated into SPPs, should maximise the potential for efficient and economic administration that meets the needs of the community.

The Pace of Reform

7.4 The Committee recognises that incorporation of these ideals into SPPs will not be easy, particularly for the large, ongoing SPPs in the health, education and community services areas. Reforms will be gradual, not just because of the difficulties in measuring outcomes and performance, but also because of the impossibility of quickly reorganising complex systems without service delivery suffering. As the Department of Human Services & Health commented:

[Reform] cannot occur in one abrupt step. You have to prepare the underpinnings if you are going to have sustainable change and change that delivers... It is certainly incremental, but it has to be, because the change we are talking about is too big for it to be achieved in a few sharp steps.²

7.5 Not only will the changes of the magnitude recommended in this report need to be implemented at a measured pace, but they will need to be done in full consultation with the parties to the SPPs and those affected by them. Reforms may need to be introduced gradually, using pilot studies to gain experience, before larger changes are contemplated.

² Department of Human Services & Health, *Transcript*, p. 580 (Canberra, 28 July 1995).

7.6 Despite the practical difficulties, it is important that the momentum for reform continues, particularly as the political will to do so exists. The Committee believes that its recommendations, if adopted, will ensure that the momentum is not lost and that SPP administration and accountability, as a whole is improved.

Responses to the ANAO/JCPA Survey

7.7 In fact, some of the recommendations that have arisen out of the Committee's inquiry process are already being implemented. At the time of writing, 8 departments had responded to the recommendations made by the Auditor-General in *Audit Report 21, 1994-95*, which reported on the results of the joint ANAO/JCPA survey on SPP administration. The Committee is heartened to see that the departments agreed with the recommendations made by the Auditor-General, where they were applicable to individual SPPs.

7.8 The Committee is awaiting with interest for the responses from the departments still to put in returns.

End note

7.9 The Committee would like to end with a reminder that the ultimate purpose of SPP reform is to ensure that those individuals or groups in the community who receive SPP funded services, of whatever form, receive the most efficient and effective service, delivered in the most economical way possible.

I

APPENDIX I - SUBMISSIONS

Submissions

- 1 Ms Jacqueline Ohlin
- 2 Auditor-General for the Northern Territory
- 3 Miss M C Peake
- 4 Auditor-General of Queensland
- 5 Auditor-General for Western Australia
- 6 Australian Education Union
- 7 Auditor-General for Tasmania
- 8 Family Support Services Association
- 9 Northern Territory Government (i)
- 10 Australian Council of TESOL Associations Inc
- 11 South Australian Commission for Catholic Schools
- 12 Alcohol and other Drugs Council of Australia
- 13 Auditor-General
- 14 Auditor-General of Victoria
- 15 Australian Association of Christian Schools
- 16 Auditor-General for South Australia
- 17 Department of Communications and the Arts
- 18 Department of Social Security
- 19 Queensland Government (i)
- 20 Australian Local Government Association
- 21 Department of Immigration & Ethnic Affairs
- 22 National Council of Independent Schools' Association
- 23 South East Women's Emergency Services Inc
- 24 New South Wales Government
- 25 Aboriginal and Torres Strait Islander Commission
- 26 National Catholic Education Commission
- 27 Western Australian Government (i)
- 28 Department of Industry, Science and Technology
- 29 Association of Independent Schools of Victoria
- 30 Department of Veterans' Affairs
- 31 Department of Employment, Education and Training
- 32 Victorian Government (i)
- 33 The Treasury
- 34 Department of Transport
- 35 Department of Human Services and Health
- 36 Tasmanian Government (i)
- 37 The Department of the Prime Minister and Cabinet
- 38 Department of Housing and Regional Development
- 39 Attorney-General's Department
- 40 Community and Public Sector Union
- 41 South Australian Government

42	Department of Finance (i)
43	Northern Territory Government (ii)
44	Queensland Government (ii)
45	Australian Capital Territory Government
46	Western Australian Government (ii)
47	Department of Finance (ii)
48	Tasmanian Government (ii)
49	University of Tasmania
50	Commonwealth Law Enforcement Board
51	Western Australian Government (iii)
52	Victorian Government (ii)
53	Tasmanian Government (iii)



APPENDIX II - EXHIBITS

Exhibits

1. Department of the Prime Minister and Cabinet - *The Council of Australian Governments: Background and Structure*
2. Australian National Audit Office - Correspondence from the Comptroller General of the United States to Chairman, Committee on Government Affairs, United States Senate
3. Victorian Department of Premier and Cabinet - *Guidelines for Negotiating Commonwealth-State Agreements*, February 1995.
4. South Australian Auditor-General - *Commonwealth Certificates*
5. Tasmanian Audit Office - *Auditor-General Special Report No. 6: Administration and Accountability of Grants*, July 1994
6. Tasmanian Regional Office of the Commonwealth Department of Human Services and Health - *Portfolio of Human Services and Health SPPs - Current 1994-95 Budget Estimates - Tasmania*
7. Alcohol and Other Drugs Council of Australia - *Drugs, Money and Governments*



APPENDIX III - WITNESSES AT PUBLIC HEARINGS

Canberra, Tuesday 13 December 1994

Department of the Prime Minister and Cabinet

Mr Alan Henderson,
First Assistant Secretary Commonwealth-State
Relations Secretariat

Dr Conall O'Connell,
Assistant Secretary
Commonwealth-State Relations Secretariat

Australian National Audit Office

Mr John Taylor, AO, Auditor-General

Mr Warren Cochrane, Acting National Business Director

Mrs Kathryn Dahlenburg, Auditor

Mr David Spedding, Acting Executive Director,
Performance Audits

Mr Peter White, Acting Group Director

Department of Finance

Mr Stephen Sedgwick, Secretary

Mr Stephen Bartos, Principal Adviser, General
Expenditure Division

Mr Ian McRae, Acting Assistant Secretary, Health
Review Task Force

Mr Timothy O'Brien, Chief Finance Officer, Education Section

Mr Brett Rowse, Acting Assistant Secretary, Economic
and Fiscal Analysis Branch

Mr Derek Russell, Team Leader, Outcomes Reporting Group

Ms Kaely Woods, Director, Resources, Energy and
Sport Section, Defence and Industry Division

Canberra, Monday 23 January 1995

Department of Human Services and Health

Dr Stephen Duckett Secretary

Mr Warwick Bruen, Assistant Secretary, Community
Care Branch

Mr Brian Corcoran, Acting Deputy Secretary

Mr Mark Johnson, Acting First Assistant Secretary,
Family and Children's Services Division

Mr Ian McNeil, First Assistant Secretary, Health
Benefits Division

Department of Housing and Regional Development

Mr Jeffrey Whalan, First Assistant Secretary, Housing
and social Policy Group

Mr Alexander Blake, Director, Local Government
Finances, Office of the Local Government

Mr Chris Foster, Assistant Secretary, Housing Policy

Dr Mark Johnston First Assistant Secretary,
Local Government and Industry Group

Mr Lloyd Scholes, Director, CSHA Management Section

Mr Barry Teleford, Acting Assistant Secretary,
Urban Programs Branch

Ms Jennifer Thomas, Assistant Secretary,
Supported Accommodation Branch

Department of Transport

Mr Christopher Thorpe, First Assistant Secretary,
Land Transport Policy Division

Mr Anthony Slatyer, Assistant Secretary, Roads Branch, Land
Transport Policy Division

Aboriginal and Torres Strait Islander Commission

Mr James Menham, Acting Deputy Chief Executive Officer,

Mr John Jones, Manager, Policy Analysis,
Strategic Development Unit

Mr Colin Plowman, Assistant General Manager, Community
Services Branch

Mr Peter Schnierer, General Manager, Corporate Services

Department of Employment, Education and Training

Mr Alan Ruby, Deputy Secretary,

Ms Helen Allnutt, Assistant Secretary, Training Development
Branch

Mr Christopher Ansted, Director, Capital Grants Section

Ms Linda Collings, Acting Assistant Secretary,
Targeted Programs Branch

Mr Kenneth Douglas, Assistant Secretary,
Aboriginal Employment Strategies Branch

Mr Bruce Furze, Director, Aboriginal Education,
Northern Section, Aboriginal Education Branch

Mr Michael Goonrey, Acting Assistant Secretary,
Schools Programs Branch, Schools and Curriculum Division

Ms Mary Lovett, First Assistant Secretary, Student
Aboriginal Education, Youth Division

Mrs Maureen MacLachlan, Director, Finance and Legislation

Mr Roderick Manns, Director, Cross Sectoral Policy
and Review Section Economic and Policy Analysis Division

Mr Stirling Meredith, Acting Assistant
Secretary, Coordination Branch, Higher Education Division

Ms Wendy Whitham, Acting Assistant Secretary, Budget and
Information Branch, School and Curriculum Division

Brisbane, Monday 20 February 1995

Queensland Treasury

Mr Alan Gray, Assistant Under Treasurer, Budget

Ms Susan Fergusson, Manager, Social Portfolios Branch

Mr Lawrence Hannah, Director, Intergovernment
Finance Branch

Queensland Audit Office

Mr Barrie Rollason, Auditor-General

Queensland Catholic Education Commission

Mr Alan Druery, Chairman

Mr Garry Everett, Executive Secretary

Mr Victor Lorenz, Finance Adviser

Mr Kevin Vassarotti, Executive Secretary

Sydney, Tuesday 21 February 1995

Home Care Service of New South Wales

Ms Marianne Hammerton, General Manager

Mr Simon Corebridge, Manager, Finance and Property

New South Wales Audit Office

Mr Anthony Harris, Auditor-General

Mr Steven Fryer, Senior Audit Manager

Perth, Wednesday 5 April 1995

Western Australian Audit Office

Mr Desmond Pearson, Auditor-General

Mr Andrija Yukich, Acting Assistant
Auditor-General, Strategy, Policy and Liaison

Silver Chain Nursing Association

Mr Ross Bradshaw, Chief Executive

Treasury Department (Darwin)

Mr Hugh McClelland, Senior Director, Programs
and Financial Relations

Department of Health and Community Services (Darwin)

Mr Graham Symons, Assistant Secretary, Policy and Planning
Services

Adelaide, Thursday 6 April 1995

Department of the Treasury

Mr Robert Schwarz, Assistant Under-Treasurer, Economics

Ms Linda Hart, Manager, Commonwealth-State Relations

Mr Rick Janssan, Chief Budget Analyst

Mr Geoffrey Knight, Principal Budget Analyst

South Australian Auditor-General's Department

Mr Kenneth MacPherson, Auditor-General

Mr Kevin Bockman, Deputy Auditor-General

Mr William Tate, Director of Audits, Field Operations.

Melbourne, Tuesday 11 April 1995

Victorian Government

Mr John Sullivan, Senior Adviser, Cabinet Office

Mr Frank Kiloh, Manager, Priority Programs, Directorate of
School

Mr John Shepherd, Senior Policy Analyst, Intergovernment
Financial Relations

Ms Frances Thorn, General Manager, Strategic Planning and
Research, Office of Training and Further Education

Victorian Audit Office

Mr Ches Baragwanath, Auditor-General

Mr John Kehoe, Assistant Auditor-General

Association of Independent Schools of Victoria Inc

Mr David Robertson, Deputy Executive Director

Hobart, Friday 21 April 1995

Tasmanian Audit Office

Dr Arthur McHugh, Auditor-General

Mr Lawrence Collis, Director of Audit

University of Tasmania

Professor Alan Gilbert, Vice-Chancellor and Principal

Mr Christopher Chapman, Deputy Principal and Registrar

Human Services and Health

Mr Stephen Dellar, State Manager

Sydney, Wednesday, 14 June 1995

New South Wales Cabinet Office

Mr Peter Hendy, Policy Manager, Inter-government Relations Unit

Mr Mark Ronsisvalle, Acting Executive Director

Canberra, 28 July 1995

Department of Human Services and Health

Ms Mary Murnane, Deputy Secretary

Dr John Loy, First Assistant Secretary, Hospitals and Health Financing Division

Dr Louise Morauta, Principal Adviser, Portfolio Strategies Group

Department of Primary Industries and Energy

Mr George Zuber, First Assistant Secretary, Corporate Affairs Division

Mr Anthony Bryne, Assistant Secretary, National Landcare Policy Branch, Land Resources Division

Mr John Cameron, Director, Sugar and Rice Section, Crops Division

Mr Ian Cronshaw, Assistant Secretary, Finance Branch, Corporate Affairs Division

Mr Paul Handscombe, Senior Officer, Strategic Planning, Section, Land Resources Division

Mrs Jennifer Lopez, Assistant Manager, Regional Initiatives Section, Community and Regional Landcare Branch

Mr Bruce O'Meagher, Assistant Secretary, RAS Management Branch

Dr Neil Tweddle, Head, Animal Disease/Incidents Section, Livestock and Pastoral Division

Australian Local Government Association

Mr Graham Sansom, Chief Executive Officer

Mr Chris Russell, Assistant Secretary-General

National Council of independent Schools Associations

Mr Fergus Thomson, Executive Director

Mr Nicholas Webb, Director of Research

Australian Association of Christian Schools

Mr Peter Crimmins, Executive Officer

Alcohol and Other Drugs Council of Australia

Mr David Crosbie, Chief Executive Officer



APPENDIX IV

COMMONWEALTH PAYMENTS TO THE STATES 1995-96 (ESTIMATED)

(\$ million)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
GPPs	4,556	3,335	2,970	1,588	1,546	664	298	897
SPPs to ¹	3,518	2,334	1,972	1,386	1,086	341	174	224
SPPs through ²	2,318	1,904	1,221	695	572	182	69	74
TOTAL	10,392	7,573	6,163	3,669	3,204	1,187	541	1,195

Source: Budget Paper No. 3, *Commonwealth Financial Relations with Other Levels of Government 1995-96*, pp. 66.

Commonwealth Payments to the States as a Percentage of Total State Revenue 1995-96 (Estimated)³

(Percent)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
GPPs	20	20	26	25	27	28	25	37
SPPs to	15	14	17	22	19	14	15	9
SPPs through	10	11	11	11	10	8	6	3

¹ SPPs to the States

² SPPs through the States

³ The value of GPPs and SPPs detailed by the Commonwealth in *Budget Paper No. 3* as a percentage of total state revenue detailed by states in state budget papers for 1995-96.

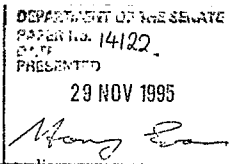
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APPENDIX V - SPP PAYMENTS TO THE STATES

The table on the following page lists SPP payments to individual states that were less than \$200,000 in 1994-95.

Dollars ('000)

SPP	DEPARTMENT ADMINISTERING	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Advanced English for Migrants	DEET						62	87	62
National Mental Health	DHSH								93
Medical Specialty Centres	DHSH						74	39	18
Home and Community Care	DHSH								131
Youth Health Services	DHSH						59	53	74
Artificial Limbs Scheme	DHSH						166		127
Children's Services	DHSH							149	
Rural Domestic Violence - Referral	DHSH	44	194	109			114		
Unattached Refugee Children	DHSH	195	57	44	22	64			
National Landcare - Urban Water	DHRD						200		
Environment Restoration	DHRD								146
Remote Sensing of Landcover	DHRD					100	60		100
Electricity Grid Infrastructure	DPIE						80	77	
Bovine Brucellosis and Tuberculosis	DPIE		199				10		
Exotic Disease Eradication	DPIE			98					28
Forestry Development	DPIE		133					9	5
Other Assistance for Manufacturing	DPIE				50	44		110	106
Interstate Road Transport	DoT				200		75	75	75
Employment Training - Aboriginal	DEET		50						100



The Parliament of the Commonwealth of Australia

Joint Committee of Public Accounts



REPORT 343

TAX LAW IMPROVEMENT

A Watching Brief

November 1995

Australian Government Publishing Service
Canberra