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Strategy Advisers

Report for the Department of Health and Human Services - Office for the Community Sector

Development of an Integrated Financial and Performance Framework

10 February 2009

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Disclaimer

This document has been prepared solely for the purpose of the Department of Health and Human Services (DHHS).

This report has been prepared using information examined by Riley & Riley through the research and consultation process. We have relied on that information as being accurate, and we have not undertaken any audit or other forms of testing to verify the accuracy, completeness, or reasonableness of the information provided. Accordingly, Riley & Riley can accept no responsibility for any errors or omissions in the information shown in this report where it is based upon that information provided.

This report has been prepared at the request of DHHS in accordance with the terms of the contract (CRC Reference No. 8506) dated October 2008. Other than our responsibility to DHHS neither Riley & Riley nor any member, employee or contractor of Riley & Riley undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

The findings and recommendations in this report are based on a qualitative study and consultation process. The findings and recommendations reflect a perception of DHHS, its processes and management actions, but only to the extent of the sample surveyed, being the DHHS approved representative sample of stakeholders. Any projection to a wider stakeholder group is subject to the level of bias in the method of sample selection.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, DHHS management and personnel and other stakeholders consulted as part of the consultation process.

Riley & Riley have indicated within this report the sources of the information provided. We have not sought to verify those sources unless otherwise noted within the report.

Riley & Riley is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report as been issued in its final form.

Executive summary

Project scope

The Integrated Financial and Performance Framework (the Framework) is to provide for the effective delivery of grant payments from the Department of Health and Human Services (DHHS) to Community Sector Organisations (CSOs), to fund a range of community services across Tasmania.

The Framework will be an integrated financial and performance framework, which sets out the:

- principles and processes of administering, monitoring and acquitting of grants; and

- roles and responsibilities of key stakeholders including Operational Units, the Office for the Community Sector (OCS) and CSOs.

The community sector and government

The community sector, in partnership with government, is playing a vital role in articulating community needs and in delivering services to those most vulnerable in society.

The Tasmanian Government's social inclusion agenda and policy priorities are a response to the changes in social and demographic circumstances, and expected community outcomes.

The agenda is outlined in a range of Budget and policy statements and is being delivered through the reforms in service delivery and internal DHHS management. The inter-linked reforms being managed by DHHS include:

- Budget priorities;

- Future Communities;

- Future Health;

- COAG reforms;

- DHHS reforms agenda; and

- the OCS Strategic Plan.

Analysis of OCS managed grants

The OCS manages grants totaling $159.5 million for 2008-2009 comprises funding:

- across 12 programs;

- for 114 service types;

- to 243 organisations; and

- through 364 agreements.

Stratification of these grant agreements by value indicates that:

- agreements of less than $100,000 in annual funding comprise approximately 40% of the number of all agreements but only represent 5% of the value of all agreements;

- agreements of less than $250,000 in annual funding comprise

approximately 50% of the number of all agreements but only represent 9% of the value of agreements; and

- agreements greater than $1,000,000 comprise 10% of the number of all agreements, but represent 63% of the value of all agreements.

One size fits all is not an appropriate approach

The stratified analysis highlights that a 'one size fits all' approach to the planning and managing of funding agreements is unlikely to be an effective or efficient approach for DHHS or CSOs.

Responding to complexity and inconsistency

The current environment for human services delivery is a complex and dynamic one and includes:

- the increasing expectations of the community for improved service standards and outcomes;

- a wide range of stakeholders with interests in services, standards and outcomes;

- the application of historically based planning and funding processes; and

- externally imposed and necessary controls over the spending of public money.

Currently, there are inconsistencies in planning and managing funding decisions and agreements with CSOs.

The adoption of a 'risk based' approach to developing and managing funding agreements with the community sector will be an essential part of overcoming the inconsistencies, in an efficient and effective manner.

The Framework applies a business case and risk assessment approach

The Framework applies a business case and risk assessment approach, which aligns with the Quality and Safety Standards Framework and meets the requirements of Treasurer's Instruction TI 709 *Grant Management Framework*.

The assessment of risk will determine the extent of management controls and risk mitigation processes, including monitoring and acquittal processes that will apply to funding agreements under the Framework.

The Framework applies an outcome approach

Both the Treasurer's Instruction TI 709 *Grants Management Framework*, and the Auditor-General's Special Report 72 *Public Sector Performance Information*, underline the need for programs to contain clear objectives and outcomes, and requiring key performance indicators be developed to indicate progress toward those outcomes.

The Framework applies an outcome focus to funding agreements.

Improving transparency and accountability of funding

Transparency of funding can be improved by adopting, where appropriate and applicable, two separate streams of funding within a single funding agreement. This would see agreements with:

- Service Delivery Funding - funding defined services (or the capacity to deliver defined services), to quality and safety

standards and quantity measures; and

- Capacity Building and Innovation Funding - funding specific and defined initiatives, including capacity building, skills development, infrastructure and service innovation.

Further, where DHHS is simply providing a contribution to costs being incurred by a CSO, without relationship to service delivery, the funding agreement should make it clear that the funding is only a contribution to costs.

Delegated roles and responsibilities

Delegated roles and responsibilities currently reflect the delegations, roles and responsibilities established in relation to procurement processes and contracts. Specific delegations in relation to grant processes and funding agreements are needed to reflect the different nature of grants and funding agreements and to enhance the efficiency and effectiveness of processes.

The Framework proposes that higher threshold limits apply to the approval of a business case and the execution of funding agreements. This should improve the efficiency of approval processes.

It is proposed that Operational Units have primary responsibility for the initiation of funding agreements and the monitoring and review of service level quality, safety, finance and performance measures.

The OCS will have primary responsibility for maintaining the various policy frameworks under which funding agreements are initiated, monitored and evaluated. The OCS will also monitor the organisation level sustainability, quality, safety, finance and performance measures within the funding agreement.

Further clarity of roles and responsibilities could be achieved if the OCS entered into a Memorandum of Understanding with Operational Units to define roles and responsibilities in initiating, managing and finalising funding agreements.

Implementation

The implementation issues are significant for Operational Units and the OCS and the challenges of implementation need to be recognised.

Successful implementation will require attention to both the behavioural and technical aspects of the proposed changes. This will require cultural and attitudinal shifts, skills and capacity development and opportunities for partnership building. The development of 'template tools' and policy guidance, as well as improving communication, training and skills development are all elements of the implementation plan.

Overview of the Framework

An overview of the Framework is set out on the next page.

Overview of Integrated Financial and Performance Framework
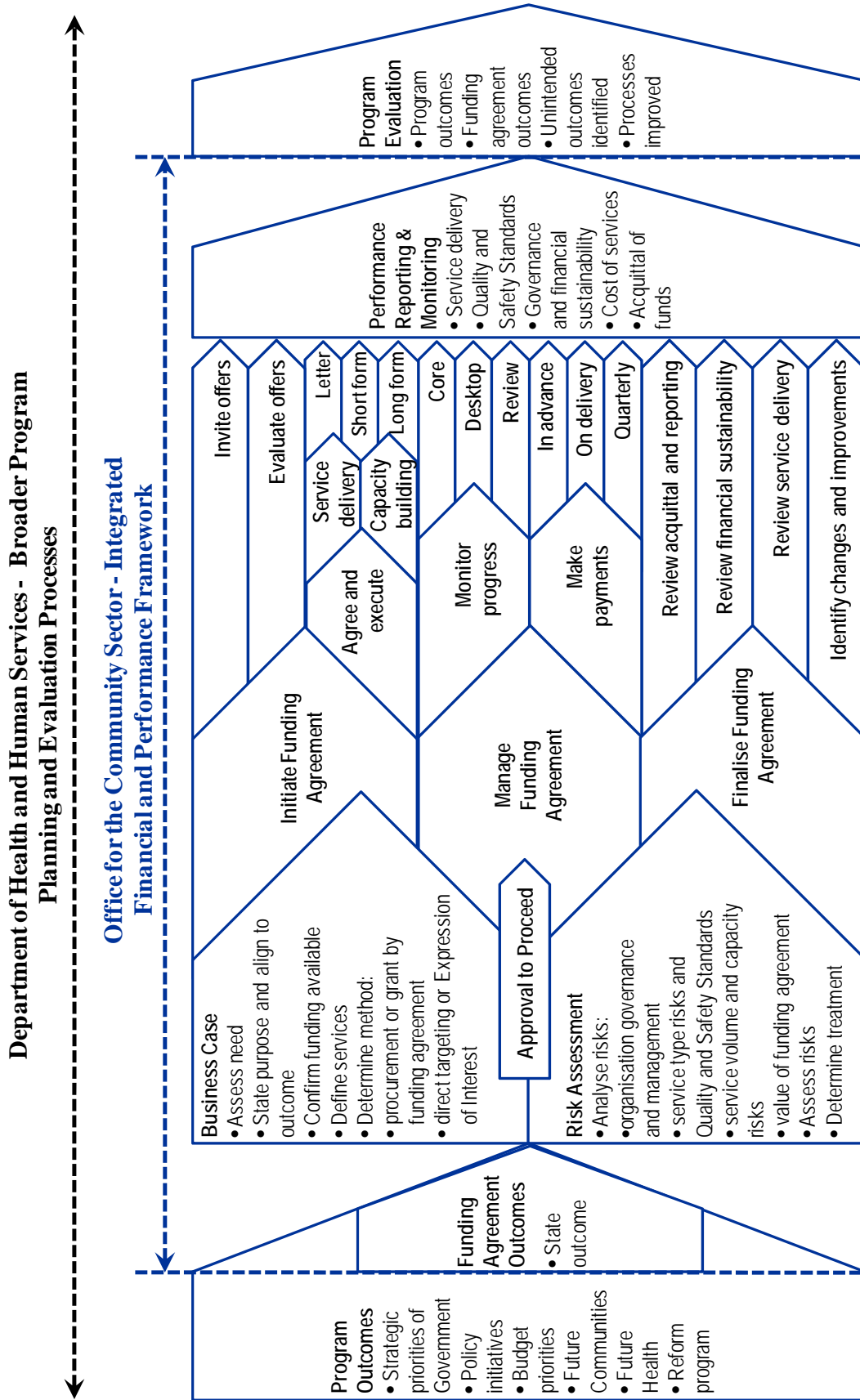
Summary of recommendations

The Office for the Community Sector

Combine the Quality and Safety Standards Framework and the Integrated Financial and Performance Framework into a single "OCS Integrated Performance Framework".

Incorporate the Quality and Safety Standards Framework and the Integrated Financial and Performance Framework as key elements within the Tasmanian Compact or Partnership Agreement.

DHHS to develop a "CSO Communications Strategy" to address the issues associated with the proposed Tasmanian Compact, the Quality and Safety Standards and Integrated Financial and Performance Frameworks, and the other initiatives and reforms affecting the community sector in a consistent manner and from a 'whole of DHHS' perspective.

Analysis of grant funding

DHHS to provide additional disclosure of a breakdown of the budgeted Grants and Subsidies Expenses outside of the Budget documentation to:

- **enable the identification of the proposed used of grants;**

- **assist with accountability by enabling a comparison of the budget to actual expenses at the end of the financial year; and**

- **enhance disclosure to the community sector.**

Register of grants

The OCS and DHHS Finance Unit establish an improved reporting structure for all grant funds that will enable grants to be identified and reported across all DHHS Cost Centres.

The OCS continues with the proposed grants management systems as planned, and that specific controls over data integrity and continuity of operations be considered within the systems design, implementation and maintenance.

Existing Departmental guidance

The *Contract Review Committee and Procurement Handbook* is updated to reflect the new Treasurer's Instruction TI 709 *Grants Management Framework*; the Delegations; the requirements of the *Disability Services Act 1992*; the altered DHHS organisational structure; and Integrated Financial and Performance Framework.

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Application of Framework principles	The Framework principles be incorporated into the Tasmanian Compact or Partnership Agreement including identifying the roles and responsibilities of DHHS and CSO's. These roles and responsibilities will need to be agreed between the parties as part of establishing the Compact or Partnership Agreement.
Business case and risk assessment	The OCS in conjunction with DHHS Operational and Corporate Units develop a 'Business Case Template' to ensure a consistent and structured assessment of whether, and how, to form an agreement and to document decisions about confirming funding; defining services; determining the form of agreement; and documenting approval to proceed.

The OCS develop a 'Risk Assessment Diagnostic Tool' to ensure a consistent and structured assessment of organisational (including financial sustainability) and service delivery risk factors including:

- CSO organisational governance and management;

- service type risks and Quality and Safety Standards;

- service volume and capacity risks; and

- the value of the funding agreement.

Funding agreements	The term 'Funding Agreement' be adopted as the term that describes the form of agreement for funding grants to CSOs. This term will embrace an exchange of letters, a short form agreement or a long form agreement.
Funding terms	The Framework enable funding agreements of up to three-years subject to a satisfactory business case and risk assessment and availability of funding over the proposed funding period.
Payment terms	The Framework enable:

- a quarterly in advance payment based on planned service delivery for the quarter and adjusted for actual services delivered in the following quarter; and

- where service delivery is not a practicable basis for making payments, equal quarterly installments paid in advance; and

- a single advance payment of up to $100,000 for an individual funding agreement, subject to a satisfactory business case and risk assessment.

The OCS monitor and report on compliance with payment terms and identify the number and value of payments not made on time. Quarterly reporting should include publication of performance through the DHHS community*Express* website.

Acquittal processes

The Framework enable differing acquittal arrangements to be applied to funding agreement. It is recommended that the following acquittal requirements are incorporated within the following forms of funding agreements:

- **Exchange of letters – acquittal report submitted once the grant funds are spent by the CSO together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement;**

- **Short form agreement – annual acquittal report together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement together with submission of the CSO's audited financial statements; and**

- **Long form agreement – annual audited acquittal report together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement together with submission the CSO's audited general purpose financial statements.**

Data provided by CSOs

The OCS, in conjunction with Operational Units and a representative sample of CSOs prepare a baseline study across all programs that fund CSOs to establish:

- **the information currently being requested of CSOs;**

- **the purpose for which the information is used;**

- **duplications or gaps in the information requested; and**

- **a minimum dataset for future reporting requirements.**

Outcome performance

Operational Units, in consultation with key stakeholders, develop and maintain outcomes and outcome performance information for all programs involving funding to the community sector.

The OCS quality assure funding agreements to ensure that agreements adequately reflect DHHS program outcomes in a consistent manner, with appropriate and adequate information to support program evaluation.

Service types
The OCS in conjunction with Operational Units, Corporate Units and CSOs develop and maintain a consistent set of 'service type' descriptions to be used when describing services within funding agreements.

Performance measures
The OCS undertake quality assurance reviews of business cases and funding agreements to ensure they adequately address the outcome performance and service delivery quality and quantity standards, including the Quality and Safety Standards Framework requirements appropriate for the nature of the services being funded.

Funding basis
The Framework enable funding agreements with two streams of funding identified for:

- service delivery funding; and

- capacity building and innovation funding.

Funding agreements state the basis of funding and its relationship to service delivery and any funding limits, or state that funding is a contribution to the costs of the CSO.

Funding agreements based on service delivery specify the treatment of surpluses or deficits arising because of changes in quantity of service delivery.

Benchmarking costs
The OCS implement the interim steps necessary to enable future benchmarking of costs. These steps will include:

- developing a consistent set of 'service type' descriptions;

- defining levels of quantity and quality for services currently being funded;

- defining performance measures consistent with the Quality and Safety Standards Framework; and

- undertaking baseline costing surveys.

The OCS monitor the progress of, and identify any developments from, the Reform Implementation Unit service pricing study, planned for 2009.

Delegations
Delegations for funding agreements be altered to better reflect the nature of the agreements.

The following threshold limits to are recommended to apply to the approval of a business case and risk assessment to proceed to

a funding agreement:

- an allocation of less than $100,000 - approval by Operational Unit CEOs and Directors;

- an allocation of $100,000 and more, but less than $250,000 - approval by Operational Unit CEOs and Directors after obtaining the agreement of the Director of the OCS, with reporting to the CRC; and

- an allocation of $250,000 and more – recommended by Operational Unit CEOs and Directors to the CRC for CRC approval to proceed.

The following threshold limits are recommended to apply to the execution of a funding agreement (or any document that enters the Crown into a commitment) for a grant. If the annual funding under a funding agreement is:

- less than $100,000 – the delegates for signing funding agreements for grant allocations are the Operational Unit CEOs and Directors;

- $100,000 and over up to $250,000 – the delegate for signing funding agreements for grant allocations is the Director of the OCS;

- $250,000 and over up to $5,000,000 – the delegate for signing funding agreements for grant allocations is the Secretary; and

- $5,000,000 and more – the delegate for signing funding agreements for grant allocations is the Minister.

Roles and responsibilities

The roles and responsibilities for the OCS and Operational Units are defined and communicated through a Memorandum of Understanding.

Implementation plan

The Framework is implemented progressively for 2009-2010 funding agreements, with the initial focus on existing funding agreements and agreements for new services greater than $250,000 in value.

The OCS incorporate the Framework Implementation plan into the OCS Unit work plans for the second half of 2008-2009 and for 2009-2010.

Project scope and methodology

Project scope

The scope is focused on grant funding to community sector organisations

The Integrated Financial and Performance Framework (the Framework) is to provide for the effective delivery of grant payments from the Department of Health and Human Services (DHHS) to Community Sector Organisations (CSOs), to fund a range of community services across Tasmania.

The Framework will be an integrated financial and performance framework, which sets out the:

- principles and processes of administering, monitoring and acquitting of grants; and

- roles and responsibilities of key stakeholders including DHHS Operational Units, the Office for the Community Sector (OCS), CSOs.

Definitions applied within this Report

There are two key definitions used within the Report, which are identified below for readers.

The definition of 'grant' is drawn from Treasurer's Instruction TI 709 *Grants Management Framework*:

"a grant is any assistance by way of a sum of money or other resource provided to an organisation or individual by the Government on the condition that the assistance is used for a specified purpose, and where the grantor receives no direct economic benefits in return for the assistance provided." [1]

The definition of 'CSOs' is drawn from the OCS *Strategic Plan 2008-2010*. That is, DHHS recognises CSOs as having the following characteristics:

"Mission: the primary objective of the enterprise is to improve the lives of individuals, and/or the communities in which they live, particularly those who are disadvantaged or vulnerable. To achieve this mission community sector organisations deliver a range of services including support, capacity building and advocacy for disadvantaged groups and on behalf of individuals.

Ownership: the resources of the enterprise are owned and invested by and for the benefit of the community, particularly those who are disadvantaged or vulnerable. Community sector organisations operate independently of government.

Governance: The enterprise has a shared purpose that is directed, formally or informally, by a collective approach to decision making targeted at improving the health and well-being of Tasmanians." [2]

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[1] Treasurer's Instruction, TI 709 *Grant Management Framework*, 2008, p. 1.
[2] Office for the Community Sector, *Strategic Plan 2008-2010*, 2008, pp. 4-5.

Qualification

The Framework draws upon elements of the yet to be endorsed Quality and Safety Standards Framework

The OCS is presently engaged in developing the Quality and Safety Standards Framework for Tasmania's community sector and the associated implementation plan. It is anticipated that these documents will be submitted to the DHHS Executive Committee for consideration and if appropriate, endorsement.

The development of the Integrated Financial and Performance Framework project has proceeded on the basis that the Quality and Safety Standards Framework will proceed through to endorsement. The Integrated Financial and Performance Framework has incorporated elements of the Quality and Safety Standards Framework in considering quality and safety performance standards and performance monitoring processes.

Should the Quality and Safety Standards Framework not be endorsed, further development of the Integrated Financial and Performance Framework will be required in order to establish quality and safety performance standards and performance monitoring processes.

Methodology

Overview

Consultations with internal and external stakeholders was a key element of the methodology

The Framework was developed during October-December 2008, using a consultative process involving a range of stakeholders, including representatives from:

- CSOs;
- peak and peak-like bodies;
- DHHS Corporate and Operational Units; and
- the OCS.

The development of the Framework required:

- an understanding the current DHHS environment, including linkages with DHHS strategic priorities, current reform initiatives and other program areas; and
- engaging and building relationships with the OCS and other Units within DHHS and with CSOs (including peaks and peak-like bodies).

The process for developing the Framework was overseen by the Framework Steering Committee comprising key DHHS staff and community sector representatives, which provided expert advice on the planning, development, implementation and evaluation of the Framework Project.

The Terms of Reference of the Steering Committee are included in Attachment 1.

An overview of the methodology is set out below. A key phase of the methodology was consulting with stakeholders. This phase

incorporated two rounds of consultations with representatives of CSOs as well as representatives of Operational Units.

Methodology – overview of key phases

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│  Scope & Governance │
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┌─────────────────────┐      Including re-confirmation
│ Preliminary Research│      of Situation Analysis
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┌─────────────────────┐
│  Identify & Confirm │
│     Stakeholders    │
└─────────────────────┘
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        ┌─────────────────────┐
        │    Consult with     │
        │    Stakeholders     │
        └─────────────────────┘
Stakeholder feedback      │
on framework prior to     ▼
finalising draft report
              ┌─────────────────────┐
              │  Develop Framework  │◄──────
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                    │                OCS and
                    ▼                Reference
              ┌─────────────────────┐  Committee
              │  Identify Issues for│  feedback on
              │   Implementation    │  draft report
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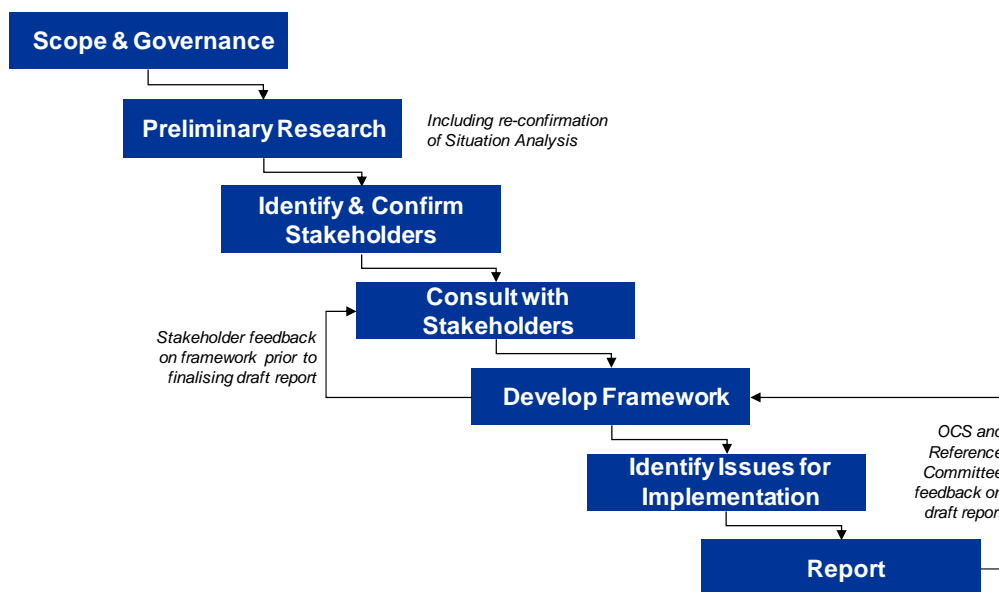
Consultations with stakeholders

Consultative meetings opened communication channels and 'road tested' the proposed Framework

Consultative meetings were held with representatives of relevant Operational and Corporate Units. Meeting details, together with a summary of the issues identified, are included in Attachment 2.

Two rounds of consultative meetings were held in Burnie, Launceston and Hobart. Attendees included representatives from:

- CSOs;
- peak bodies;
- Operational Units; and
- the OCS.

The purpose of the first round of consultative meetings was to open dialogue about the Framework, and to identify the concerns, issues and needs of CSO's and DHHS staff applying the Framework. The second round of consultative meetings 'road tested' the proposed Framework against the circumstances of individual CSOs.

As part of that 'road testing' a number of CSOs provided an opportunity for reviewing individual funding agreements against the elements of the proposed Framework. This engagement with CSOs was beneficial in identifying opportunities for improving the processes of planning and managing funding to CSOs. Meeting details, together with a summary of the issues identified during the first round of meetings, are included in Attachment 2.

Additional meetings were held with representatives from CSOs and peak bodies throughout the process of developing the Framework.

This included attending the TasCOSS Conference held during October 2008.

Throughout the development of the Framework meetings were held with DHHS officers, including senior executives and managers, and the executive and staff of the OCS to clarify and confirm processes, source information and test elements of the Framework.

Our consultations also included meeting with representatives from the Department of Treasury and Finance (Treasury).

The Project Steering Committee confirmed that the degree of consultation with external and internal stakeholders was appropriate and in line with the Committee's expectations.

The Project Steering Committee meetings also provided an opportunity for identifying issues to be considered within the Framework, with both internal and external stakeholders.

Details of the formal consultative meetings held as part of the development of the Framework are set out in the table below.

Summary of formal consultation meetings

Meeting dates	Location	Target audience	Number of meetings
Week commencing 6 October 2008	Hobart	Operational and Corporate Units	9
Week commencing 3 November 2008	Burnie, Launceston and Hobart	Community sector representatives	7
Week commencing 1 December 2008	Burnie, Launceston and Hobart	Operational and Corporate Units and community sector representatives	9

Over 200 representatives of CSOs attended the eleven community sector forums held in Burnie, Launceston and Hobart.

Community sector environment

The community sector and government

Increasing focus on partnerships

The community sector, in partnership with government, is playing a vital role in articulating community needs and in delivering services to those most vulnerable in society

The community and voluntary sectors (also referred to as the 'Third Sector') are increasingly working in a partnership role and collaborating with government to meet challenges in service delivery and achieve improved outcomes.

The United Kingdom, Canada and Scotland have moved towards a Compact model to establish a positive foundation for dialogue, negotiation and shared responsibility between government and community for the outcomes for vulnerable families and individuals.

The Compact model is underpinned by mutually respectful relationships, a clear delineation of roles and responsibilities and robust regulatory frameworks. A similar model has been adopted by several Australian State Governments, including Queensland, and is currently under discussion at the Commonwealth level.

For the Commonwealth Government, the delivery of effective and efficient quality services is firmly aligned to outcomes and consumer need. In addition to initiating consultations on a proposed National Compact, the Commonwealth Government is progressing its agenda for social inclusion which reinforces the need for:

- innovation in social policy and service delivery to improve the quality and effectiveness of government funded services;

- collaboration across all tiers of government and partnership with the community sector; and

- flexibility and transparency in funding with an emphasis on the outputs and outcomes that meet real need.

Tasmania's community service environment

Demand for accessible and appropriate quality human services is growing across all regions of the State, and service delivery requirements are becoming increasingly complex. A number of factors influence the type and range of health and human services delivered into the Tasmanian community, including population and demographic distribution, profile and trends such as:[3]

- Tasmania's population is currently estimated at 500,000 with annual growth of 0.9%;

- Tasmania has a proportionately higher number of people 65 years and over compared to the rest of Australia;

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[3] Australian Bureau of Statistics data notes that Tasmania's population has moved into a growth phase since 2001, including as a result of interstate migration. Prior to 2001, Tasmania's population had been in a phase of decline.

- the population is of low density and highly regionalised with a large proportion of the population living in outer regional and remote areas; and

- Tasmanians experience higher levels of poverty and social disadvantage when compared with the populations in other States and Territories, evidenced across a range of areas, such as employment, education, income levels and health status.

Tasmanian Government's social inclusion agenda

Elements of the agenda

A clearer focus on addressing health and human services outcomes – through specific initiatives and reforms

The Tasmanian Government's social inclusion agenda and policy priorities are a response to the changes in social and demographic circumstances and expected community outcomes.

The agenda is outlined in a range of Budget and policy statements and is being delivered through the reforms in service delivery and internal DHHS management. The inter-linked reforms being managed by DHHS include:

- Budget priorities;

- Future Communities;

- Future Health;

- Council of Australian Governments (COAG) reforms;

- DHHS reforms agenda; and

- the OCS Strategic Plan.

Operational Units are also implementing (and have implemented) major reforms in service structures and delivery, including the:

- current expansion of alcohol, tobacco and other drugs services;

- review of key performance indicators framework for Home and Community Care (HACC) Program; and

- *Bridging the Gap* mental health reforms.

Budget priorities

The 2008-09 Budget delivered funding to support the reform agenda

The Tasmanian Government's 2008-09 Budget reflects its broader social inclusion agenda and commitment to health and human services initiatives and reforms. Budget priorities include:

- promoting social inclusion – in part through the implementation of health reforms and new service delivery models;

- delivering improved housing services to Tasmanians most in need; and

- improving community safety.

Although not directly controlled by Government, Tasmania *Together* is an important cross-sector initiative within the context of Tasmania's human services delivery environment. Tasmania *Together* identifies 12 goals and 143 benchmarks for achieving a

long-term vision of community health, wellbeing and sustainability.[4]

Future Communities

Future Communities reforms are progressing and are aimed at enhancing outcomes and coordinating service delivery

Future Communities envisages an integrated service delivery system based on four key service areas within the state (North, North-West, South-East and South-West). The Future Communities agenda currently being implemented by the DHHS Reform Implementation Unit encompasses a number of specific reforms.

- Gateway Services – to provide a single, well publicised, community based access and assessment service for both Disability and Family Support Services.

- Integrated Family Support Services – to provide a coordinated, comprehensive and flexible service delivery approach to family services within the community, in a way that will respond to the complex and diverse needs of vulnerable families.

- Disabilities Services Reform - to provide a coordinated and flexible mainstream and specialist disabilities services within the community.

- Community-based model for the provision of out-of-home care services.

Future Health

Future Health identifies challenges and provides a blueprint for addressing them

Future Health was released in May 2007. It addresses issues in both Primary Health Services and Clinical Services. These include:

- a dramatic increase in chronic disease;

- an ageing population;

- increasing costs of healthcare; and

- an ageing workforce, and difficulties in recruiting staff.

Future Health provides a blueprint for addressing these challenges over coming years through a range of projects and initiatives.

COAG agreement

Recent COAG reforms aimed at rationalising processes and focusing on consistent outcomes

The November 2008 COAG meeting agreed to move ahead on a suite of reforms.

In particular, COAG agreed to a new Intergovernmental Agreement (IGA) revising the framework for federal financial relations. The COAG agreement rationalises the existing structure of Specific Purpose Payments, from 90 to 5. National partnership agreements to be made under the new structure will provide a clearer specification of roles and responsibilities of each level of government and an improved focus on accountability for better outcomes and better service delivery.

COAG also agreed to a range of objectives and outcomes which will

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[4] Tasmania *Together*, *2008 Progress Report*, 2008.

have an impact on the delivery and performance monitoring of Tasmania's government funded health and human services. These outcomes relate to:

- health and wellbeing;

- coordination of care;

- access and choice;

- timeliness;

- social participation; and

- sustainability.[5]

DHHS reform program

DHHS is a key agency in implementing the complex and inter-related reforms

DHHS is currently undertaking a complex reform program.

The key reforms, including the Framework, contain common challenges to establish:

- clear governance structures and clarity of roles and responsibilities;

- improved accountability through agreed program level outcomes and service and activity based performance measures, including standards of quality and safety;

- transparent, consistent and simplified funding arrangements with the community sector; and

- open communication and attention to enhancing the inter-dependant relationships of Operational Units, the Reform Implementation Unit, the OCS and CSOs.

There are clear inter-relationships between the Operational Units, Reform Implementation Unit, the OCS and Corporate Units in implementing the reform program.

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[5] Council of Australian Governments (COAG), *Meeting Communiqué*, 2008.

Inter-relationships within DHHS
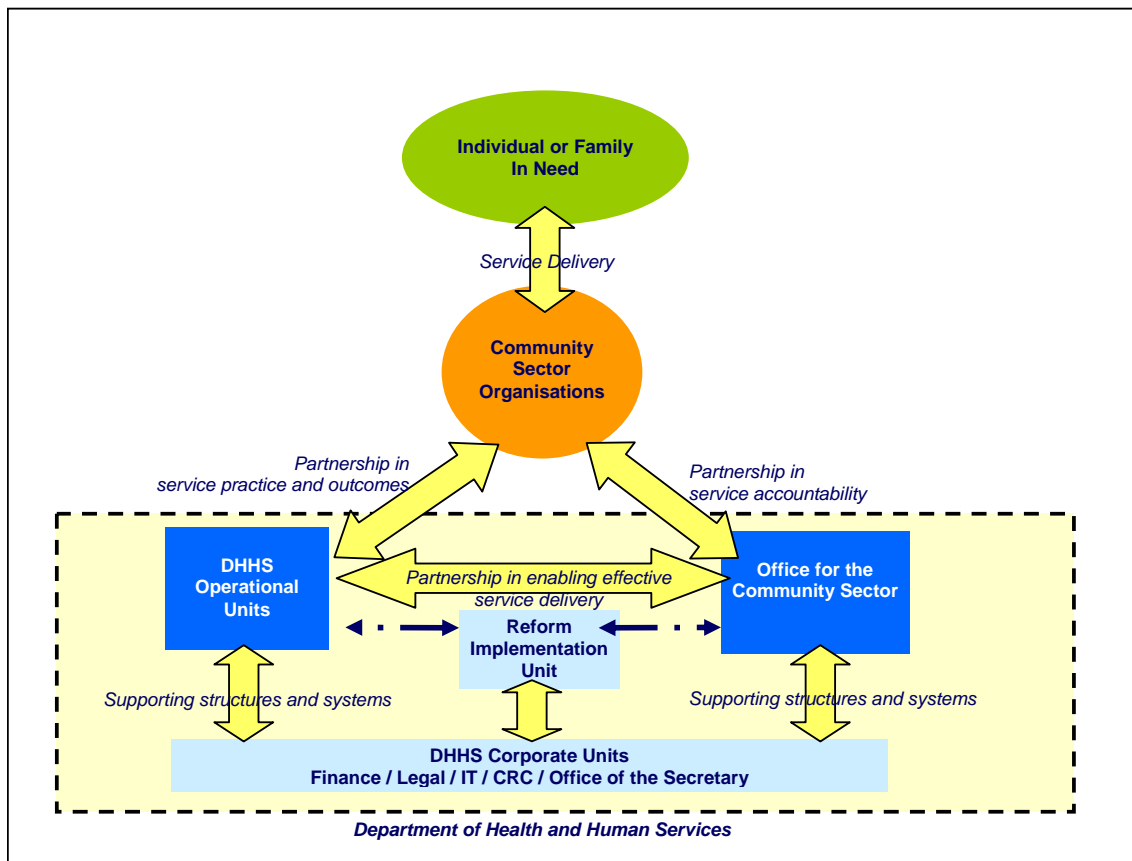
Internal and external consultations identified concerns about implementation of the reform program

Our internal consultations identified concerns about the lack of an integrated approach across DHHS to the management and implementation of the reforms. DHHS managers and staff were concerned about the resulting planning issues, inconsistent messages, and inefficient use of scarce resources, both within the Department and the community sector.

At the consultation forums held across the State, CSOs repeatedly raised concerns about communication issues, implementation of the reforms and the amount of time and resources required to deal with the reform program.

CSOs identified improvements that could be achieved through greater integration of the reform program and keeping the community sector better informed through a more timely and consistent approach to communication with CSOs.

The OCS – aimed at building partnerships with and strengthening the community sector

The Office for the Community Sector

The Office for the Community Sector (OCS) was established in 2008 with the aim of building partnerships with and strengthening the community sector. In addition to the development of the Integrated Financial an Performance Framework the other policy initiatives are:

Quality and Safety Standards Framework

The objective of the Quality and Safety Standards Framework is to ensure that all services provided by the community sector organisations through DHHS service agreements are consumer focused, of high quality and safe. The Quality and Safety Standards Framework identifies core and non-core standards to be applied, monitored and evaluated as part of the service agreement process.

Strategic Development

The objective of this initiative is to develop the skills and professionalism of the workforce, build industry capacity, improve information sharing, and a partnership approach to service delivery, that will contribute to the future growth of the community sector. Recent and current activities include:

- the review of peak bodies;

- the development of strategic informational technology systems; and

- the development of a Tasmanian Compact or Partnership Agreement.

Integration within the OCS will deliver improvements

The OCS should integrate its own reform initiatives by combining the Quality and Safety Standards Framework and the Integrated Financial and Performance Framework into a single "OCS Integrated Performance Framework".

An Integrated Framework will provide the OCS with a clear direction for the reforms being implemented, provide a greater opportunity for the exchange of knowledge within the OCS, and assist in clarifying roles and functions within the OCS.

Integrating these initiatives will remove one source of confusion for CSOs.

The Quality and Safety Standards Framework and the Integrated Financial and Performance Framework should be incorporated as key elements within the Tasmanian Compact or Partnership Agreement.

Recommendations

Combine the Quality and Safety Standards Framework and the Integrated Financial and Performance Framework into a single "OCS Integrated Performance Framework".

Incorporate the Quality and Safety Standards Framework and the Integrated Financial and Performance Framework as key elements within the Tasmanian Compact or Partnership Agreement.

Contributing to enhanced communication with the community sector

Operational Units have primary responsibility for maintaining appropriate communication channels with CSO's. However, given its role and purpose, the OCS is uniquely positioned to assist with enhancing communication between DHHS and the community sector.

The OCS should contribute to establishing a single community sector communication strategy addressing all aspects of the reform program being implemented by DHHS that impact CSOs. This will necessarily require working with Operational Units to ensure that the issues affecting CSO's are communicated in a consistent manner and provide a whole of DHHS perspective.

Recommendation

DHHS to develop a "CSO Communications Strategy" to address the issues associated with the proposed Tasmanian Compact, the Quality and Safety Standards and Integrated Financial and Performance Frameworks, and the other initiatives and reforms affecting the community sector in a consistent manner and from a 'whole of DHHS' perspective.

Tasmania's community sector

Overview of involvement and funding

Tasmania's community sector currently comprises over 350 organisations that employ up to 8,000 Tasmanians in paid work and approximately 15,000 volunteers, delivering services into the Northern, North Western and Southern regions.

Budgeted grants and subsidies to the community sector and electricity concession for the 2008-2009 year totals more than $210 million.

Analysis of actual and budgeted grants, subsidies and concessions

Grants, Subsidies & Concessions Expenses	2005-06 Actual $'000	2006-07 Actual $'000	2007-08 Actual $'000	2008-09 Budget $'000	2009-10 Forward Estimate $'000	2010-11 Forward Estimate $'000	2011-12 Forward Estimate $'000
Grants and subsidies[6][7]	127,385	139,449	153,087	187,399	192,647	199,167	205,110
Electricity concession[8][9]	11,429	11,918	14,729	23,365	24,493	25,372	26,292
Total	**138,814**	**151,367**	**167,816**	**210,764**	**217,140**	**224,539**	**231,402**

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[6] Actual Grants and subsidies sourced from DHHS *Annual Report* for 2006, 2007 and 2008, Note 6.4 to the Financial Statements.

[7] Budget and Forward Estimate Grants and subsidies sourced from Department of Treasury and Finance *Tasmanian Budget 2008-09, Government Services, Budget Paper 2, Vol. 1*, 2008, p.6.28.

[8] Actual Electricity concessions sourced from DHHS Annual Report for 2006, 2007, and 2008, Note 13.2 to the Financial Statements.

[9] Budget and Forward Estimate Electricity concessions sourced from Department of Treasury and Finance *Tasmanian Budget 2008-09, Government Services, Budget Paper 2, Vol. 1*, 2008, p.6.32.

Grants and subsidies addressing areas of real need for individuals and families

The grants and subsidies support CSOs to provide a range of services to individuals and families in the areas of [10]:

- Alcohol and Drug Services – Services provided under the Illicit Drug Diversion Initiative and the National Drug Strategy 2004-2009;

- Children and Families Community Support – Domestic violence, parenting education and support, financial counselling, personal and family counselling, out-of-home care, neighbourhood houses, early childhood services and community sector peak activities;

- Children and Families Community Support Levy – Small grants program;

- Disability – Disability carer support, respite, accommodation support, information advocacy, education, day support, specialist equipment, personal care and other individual support services;

- Disability Services – Payments to NGOs for individual funding agreements for disability clients;

- Home and Community Care – Community nursing, home help and maintenance, respite, personal care, transport, packages of care and delivered meals across the state;

- Housing – Private Rental Support Program, Affordable Housing Strategy, Employment Initiatives;

- Housing – Supported Accommodation Assistance Packages (SAAP), crisis accommodation and related support services for people who are experiencing homelessness, or are at imminent risk of becoming homeless;

- Housing – Brokerage of emergency accommodation and specialist support under SAAP;

- Mental Health – Treatment, support and management of mental disorders to maximise mental health, wellbeing and quality of life. Funding covers assessment, treatment, care and rehabilitation in the community as well as information services and community-based accommodation;

- Palliative Care – Care of people whose disease is not responsive to curative treatment;

- Population Health – Services to prevent illness, protect the Tasmanian community and promote health gain; and

- Primary Health – Subsidies and respite payments to nursing homes and multi-purpose centres.

In the 2008-2009 financial year, DHHS is planning to fund 243 CSOs across Tasmania, through 364 individual agreements. Budgeted grants and subsidies expenses for 2008-2009 total $187.4 million,

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[10] DHHS *Annual Report* 2008, pp.129-142

representing 12.6 % of total budgeted Departmental expenses.

Analysis of actual and budgeted Departmental grants and subsidies

Grants and Subsidies [11] [12]	2005-06 Actual $'000	2006-07 Actual $'000	2007-08 Actual $'000	2008-09 Budget $'000	2009-10 Forward Estimate $'000	2010-11 Forward Estimate $'000	2011-12 Forward Estimate $'000
Disability services	59,280	63,279	70,730				
Home and community care	20,228	23,294	41,406	187,399	192,647	199,167	205,110
Supported accommodation assistance	14,126	14,264	25,710				
Other grants	33,751	38,612	15,241				
Total	**127,385**	**139,449**	**153,087**	**187,399**	**192,647**	**199,167**	**205,110**

Limited disclosure of budgeted grants and subsidies does not assist in communicating the direction

There is no detailed breakdown of the Budget and Forward Estimates for grants and subsidies across the key services of disability services, home and community care, supported accommodation and other grants. This limited disclosure does not assist in communicating the direction and intent of Budget priorities and precludes a comparison of the budget to actual expenses at the end of each financial year.

Recommendation

DHHS to provide additional disclosure of a breakdown of the budgeted Grants and Subsidies Expenses outside of the Budget documentation to:

- **enable the identification of the proposed used of grants;**

- **assist with accountability by enabling a comparison of the budget to actual expenses at the end of the financial year; and**

- **enhance disclosure to the community sector.**

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[11] Actual Grants and subsidies sourced from DHHS *Annual Report* for 2006, 2007 and 2008, Note 6.4 to the Financial Statements.

[12] Budget and Forward Estimate Grants and subsidies sourced from Department of Treasury and Finance *Tasmanian Budget 2008-09, Government Services, Budget Paper 2, Vol. 1*, 2008, p.6.28.

Grants programs

Recording of grants

As noted earlier in this report, for 2008-2009 budgeted grants and subsidies total $187.4 million. The 2008-2009 budgeted electricity concession is an additional $23.4 million.

These funds are held by cost centres across DHHS, in some instances within the OCS and other instances within Operational Units.

OCS register of grants

Recording and reporting of grants is limited, with the 'grant register' not being a complete reporting of all grants

The DHHS Finance Unit advised that current systems do not allow the easy identification of grant funds held and managed by Operational Units. The extent of reporting is limited by the structure of the current chart of accounts and inconsistent use of account codes when recording transactions. The only reporting available is for grant funds held and managed by the OCS, which totals $159.5 million. This reporting relies upon the OCS to maintain a 'grant register' spreadsheet for:

- Central Grants Fund of $150.5 million; and

- Operational Units programs (but managed by OCS) of $9.0 million.

There are other grant funds held and managed by Operational Units that are not recorded in the 'grant register'. This is an unsatisfactory arrangement, which limits transparency and accountability over the management of grants overall within DHHS. Further, the use of a spreadsheet adds risks in relation to data integrity, reliability of information and continuity of operations.

The DHHS Finance Unit advised that details concerning funding agreements such as type of service, funding source, program and recipient are not currently available from DHHS's Central Finance System. Instead, the OCS and each Operational Unit must keep manual (spreadsheet or database) records of how their budget has been committed as well as recording operational or performance information in relation to services delivered. There is no commonality with regard to the information collected between individual Operational Units, or between the OCS and Operational Units.

These issues were also highlighted in the DHHS Audit and Assurance Unit Report into *DHHS Data Matrix of Grant Agreements.*

The OCS has already identified the need to improve the recording and sharing across DHHS of grants information and has commenced work on defining the information and systems requirements for a grants management system, with improved reporting to Operational Units and enhanced controls over data integrity and continuity of operations.

This will be required if the Framework is to be applied to all grants.

Recommendations   **The OCS and DHHS Finance Unit establish an improved reporting structure for all grant funds that will enable grants to be identified and reported across all DHHS Cost Centres.**

The OCS continues with the proposed grants management systems as planned, and that specific controls over data integrity and continuity of operations be considered within the systems design, implementation and maintenance.

Analysis of OCS managed grants

The OCS manages grants totaling $159.5 million for 2008-2009 comprises funding:

- across 12 programs;

- for 114 service types;

- to 243 organisations; and

- through 364 agreements.

The funding of the existing 12 programs is analysed below.

Analysis of grant agreements by Program[13]

Program	Agreements		Proportion by[14]	
	Number	$ m	Number	$m
Community Support Packages (CSP)	94	11.0	26%	7%
Disability Services (DS)	85	80.0	23%	50%
Home and Community Care (HACC)	61	27.0	17%	17%
Pensioner HCC Concessions (HCC)	1	4.0	0%	3%
Housing Tasmania (HT)	18	3.0	5%	2%
Illicit Drug Diversion Initiative (IDDI)	7	.3	2%	0%
Mental Health (MH)	28	9.0	8%	6%
National Drug Strategy (NDS)	12	3.0	3%	2%
Palliative Care (PC)	2	.2	1%	0%
Population Health (Pop Health)	26	4.0	7%	3%
Primary Health (Prim Health)	7	3.0	2%	2%
Supported Accommodation Assistance Package (SAAP)	23	15.0	6%	9%
Total	**364**	**$159.5**	**100%**	**100%**

The analysis highlights:

- that the Community Support Packages program represents 26% of the number agreements, while only representing 7% of the value

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[13] Based on information drawn from the OCS Register of Grants spreadsheet and DHHS Internal Audit Report into *DHHS Data Matrix of Grant Agreements*
[14] Rounding may prevent exact addition.

of budgeted grants; and

- the significance of the Disability Services program, representing 23% of the number of agreements and 50% of the value of the budgeted grants.

Stratification of these grant agreements by value indicates that:

- agreements of less than $100,000 in annual funding comprise approximately 40% of the number of all agreements but only represent 5% of the value of all agreements;

- agreements of less than $250,000 in annual funding comprise approximately 50% of the number of all agreements but only represent 9% of the value of agreements; and

- agreements greater than $1,000,000 comprise 10% of the number of all agreements, but represent 63% of the value of all agreements.

Analysis of grant agreements by value of agreement[15]

Range of value of individual funding agreements	Agreements		Proportion by[16]	
	Number	**$ m**	**Number**	**$m**
<$10,000	17	0.1	5%	0%
>$10,000 to <$50,000	52	1.5	14%	1%
>$50,000 to <$100,000	78	6.4	21%	4%
>$100,000 to <$150,000	18	2.1	5%	1%
>$150,000 to <$200,000	12	2.2	3%	1%
>$200,000 to <$250,000	8	1.8	2%	1%
>$250,000 to <$500,000	109	21.6	30%	14%
>$500,000 to <$1,000,000	35	23.0	10%	14%
>$1,000,000	35	100.8	10%	63%
Total	**364**	**$159.5**	**100%**	**100%**

The analysis highlights that a 'one size fits all' approach to the planning and managing of funding agreements is unlikely to be an effective or efficient approach for DHHS or CSOs.

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[15] Based on information drawn from the OCS Register of Grants spreadsheet and DHHS Internal Audit Report into *DHHS Data Matrix of Grant Agreements*

[16] Rounding may prevent exact addition.

Current grants management processes

Legislative background

The legislation imposes accountability requirements

The responsibilities of departments with respect to the management of Tasmania's public finances, including spending public monies, is established by the *Financial Management and Audit Act 1990* (FMAA) and the *State Service Act 2000*.

The legislation establishes a framework for economic, efficient and effective financial management, including the capacity for delegation of the authority for the spending of public monies.

The FMAA requires the Treasurer to issue instructions about the principles, practices and procedures to govern financial management in all departments. These instructions are known as Treasurer's Instructions.

Treasurer's Instructions are issued under the authority of the FMAA and, therefore, must be complied with by Heads of Agencies unless specific exemption is obtained under Treasurer's Instruction TI 105(3).

In addition, the *Disability Services Act 1992* also sets out approval processes for grants to organisations.

Existing Departmental guidance

Within this legislative framework, existing DHHS specific guidance is set out in the *Contract Review Committee and Procurement Handbook* Version 2.0 released in February 2007 (the Handbook). The Handbook sets out processes, policies and practices applied by DHHS for procuring goods and services and making grants.

"*It is important that a clear distinction is drawn between grant processes and the processes relating to the purchase of goods and services*."[17] This is because different Treasurer's Instructions apply to:

* procurement of goods and services; and

* managing grants.

Recent new guidance has become effective

In relation to grants, the Handbook requires updating to reflect the withdrawal of Treasurer's Instructions TI 709 *Grants to Public Bodies* and TI 710 *Grants to Individuals*, which were replaced by Treasurer's Instruction TI 709 *Grants Management Framework*, effective from 1 August 2008.

These changes introduce new definitions for 'grant', 'grant program' and 'funding agreement', as well as identifying new processes to be applied to managing grants.

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[17] Department of Health and Human Services, *Contract Review Committee and Procurement Handbook* Version 2.0 February 2007, p.54

The Handbook[18] refers to:

- approval to proceed;

- approval of the grant;

- allocating grants;

- execution of contracts;

- making a payment; and

- authorise variations.

The Handbook identifies threshold values for these decisions, but does not expressly address how these decisions or thresholds align with the formal delegations to:

- enter into a contract on behalf of the Crown; and

- the delegation to authorise expenditure.

The Handbook should reflect the relationship to the formal delegations as set out in the DHHS *Financial, Facilities and Procurement Management Delegations and Administrative Authorities* (the Delegations).

The Handbook points out that *"all grants under the Disability Services Act require approval by the Minister"[19]*, but does expressly address the specific requirements of that approval process.

The guidance in the Handbook also needs to be updated to reflect organisational changes within DHHS. For example, the Handbook refers to the 'Grants Unit' within the 'Business and Risk Strategy Group'. This structure was altered in 2008 with the 'Grants Unit' being transferred into the OCS and renamed the 'Finance and Performance Unit'.

Recommendation   **The *Contract Review Committee and Procurement Handbook* be updated to reflect the new Treasurer's Instruction TI 709 *Grants Management Framework*; the Delegations; the requirements of the *Disability Services Act 1992*; the altered DHHS organisational structure; and the Integrated Financial and Performance Framework.**

Application of existing guidance

The Handbook and Delegations are applied to grants in two different ways, based on whether the grant:

- is an existing grant, which is being renewed or re-negotiated for a further period of time; or

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[18] Department of Health and Human Services, *Contract Review Committee and Procurement Handbook* Version 2.0 February 2007, pp.58-65
[19] Department of Health and Human Services, *Contract Review Committee and Procurement Handbook* Version 2.0 February 2007, p.62

- is a new grant, or a variation to an existing grant agreement.

Approval of existing grants

A business case approach is currently applied to existing funding agreements for review by CRC, the Secretary and Minister

A business case is the starting point for seeking approval of grants.

For all existing grants, the process steps of developing a business case and seeking approval are completed and documented through the preparation by the OCS of a Minute to the Minister. The Minute sets out:

- the process applied for determining the level of funding;
- the basis of calculating the indexation adjustment; and
- a schedule of proposed base grant funding, indexation and total grant funding for each proposed funding agreement to each CSO for the year, by program.

The Minute is prepared for Contract Review Committee (CRC) review and recommendation to the Secretary, prior to being forwarded to the Minister.

The Minute seeks the approval of the Minister to make payments as set out in the schedule. The Minute also ensures that the legislative requirement that the Minister approve all payments for disability services as required by the *Disability Services Act 1992*.

This business case, prepared by the OCS Finance and Performance Unit in conjunction with Operational Units reviews all existing funding agreements, with the OCS seeking comments on:

- whether funding is to continue into the next year;
- whether there are any service related issues associated with the delivery of services that needed to be addressed; and
- whether a multi-year agreement should be offered.

Subject to the comments received back from Operational Units, the OCS applies indexation to the existing base funds and calculates the indexation adjustment. These calculations are set out in the Minute to the Minister.

The result is the development of a single, 'bulk approval' business case for all existing grant agreements and indexation adjustment for the year.

Approval of new grants and variations to grants

New grants and variations to existing agreements are reviewed and approved on an individual agreement by agreement basis.

Where required, these will also be reviewed by CRC with a recommendation to the Secretary, and if required, forwarded to the Minister.

DHHS staff estimated the number of variations to be 4 or 5 per week.

Limitations of the existing approval processes

Current processes are very efficient, but have a number of limitations

There are a number of limitations of these process and they include:

- the single business case and approval process for existing funding agreements does not adequately or transparently document the decision-making process, with limited opportunity for an appropriately detailed of review of the effectiveness or efficiency of existing funding arrangements;

- the process is not specific in relation to applying the special requirements associated with the *Disability Services Act 1992*;

- the process is overly reliant upon the OCS;

- the process is focused on individual organisations rather than the overall program;

- the process does not adequately document the alignment of funding of individual CSOs to the achievement of Government strategic priorities;

- the process does not adequately document the nature, quantity, quality or safety standards of services to be funded; and

- the process focuses on existing funding adjusted for indexation, and required new, extended or different services to be addressed separately.

While the existing process is very efficient, it would be preferable if funding agreements were approved as a program or individually, rather than in a single submission to the CRC. This would enable greater evaluation of the benefits of the program or individual agreement and increase the transparency and accountability of decision makers in relation to the approval to proceed and authorisation of payment. It would also enable DHHS to focus on those programs and funding agreements that expose the Department to higher risk.

However, a change of this magnitude will require changes to current delegation limits and streamlining of existing processes if key points in the decision making process, for example the CRC, are not to be overwhelmed with additional work. It may also require a staged implementation of the Framework across all funding agreements.

A 'risk based' approach offers improvement in an efficient and effective manner

The adoption of a 'risk based' approach to developing and managing funding agreements with the community sector will be an essential part of overcoming these limitations in an efficient and effective manner. Application of the risk based approach may also require a staged implementation of the Framework across all funding agreements.

Is a Framework required?

The complexity of the current environment together with historically based approached results in inconsistencies in planning and managing funding agreements

Responding to the complexity and inconsistency

The current environment for human services delivery is a complex and dynamic one and includes:

- the increasing expectations of recipients for improved service standards and outcomes;

- a wide range of stakeholders, with interests in services, standards and outcomes;

- the application of historically based planning and funding processes; and

- externally imposed and necessary controls over the spending of public money.

Currently, there are inconsistencies in planning and managing funding decisions and agreements with CSOs.

The Framework will enhance the efficiency and effectiveness of funding decisions made by DHHS and provide stakeholders with a structured, consistent and collaborative approach to planning and managing funding decisions and agreements.

The Framework offers consistency and standardisation and the opportunity for improving performance

The Framework will provide Operational Units, the OCS, and CSOs with a consistent approach to:

- implementing risk based planning in the initiation of funding agreements and contracts;

- clarifying roles and responsibilities;

- improving accountability through agreed upon Program level outcomes and service and activity based performance measures;

- developing performance measures relating to the quality, safety, quantity and cost of services;

- establishing transparent, consistent and simplified funding arrangements; and

- contributing to the evaluation of Program outcomes.

Key principles to guide how the Framework is applied to decision-making

The Framework principles

The Framework should be based on key principles. These key principles are set out below.

Results Focused

DHHS and CSOs focus upon achieving planned objectives and results for the individual, family or community recipients of services.

Mutual Regard

DHHS and the community sector recognise that engagement, defined roles and responsibilities, professionalism and judgement are needed

to achieve results and deliver services.

Transparency, Accountability and Sustainability

Funding and performance arrangements between DHHS and the community sector be transparent, enable accountability and support services in a sustainable manner.

Value for Money

Funding and performance arrangements between DHHS and the community sector must demonstrate value for money, recognising that services need to meet quality and safety standards at an agreed level of cost

Continuous Improvement

The individuals and families receiving services, and the Tasmanian community, expect that DHHS and the community sector will focus on continually improving services, standards and management arrangements.

Application of the Framework principles

The principles will guide both DHHS and CSOs in their day-to-day application of the Framework. Application of the principles will contribute to improving relationships and management practices and processes within and between DHHS and CSOs.

Recommendation | **The Framework principles be incorporated into the Tasmanian Compact or Partnership Agreement including identifying the roles and responsibilities of DHHS and CSO's. These roles and responsibilities will need to be agreed between the parties as part of establishing the Compact or Partnership Agreement.**

Funding agreement outcomes

A focus on outcomes

Each funding agreement should set out the outcomes or results that are expected to be achieved because of the funding.

Operational Units are responsible for the development, monitoring and review of Programs under which individual funding agreements are agreed, which result in funding to CSOs.

A program is the prerequisite for planning and managing funding agreements services with CSOs. Developing the program enables the Operational Unit to identify:

- client need for service;
- service delivery type and location;
- service agreement type; and
- program level outcomes.

Business case and risk assessment

The Framework applies a business case and risk assessment approach, which aligns with the Quality and Safety Standards

Framework and meets the requirements of Treasurer's Instruction TI 709 *Grant Management Framework*.

The assessment of risk will determine the extent of management controls and risk mitigation processes, including monitoring and acquittal processes that will apply to funding agreements under the Framework.

A business case and risk assessment approach to ensure that resources are used efficiently

Currently, all existing funding agreement are subject to the same management controls and risk mitigation processes, irrespective of the level of risk associated with the agreement. This may result in poor utilisation of resources, with insufficient attention allocated to those agreements that indicate higher risk factors.

Funding agreements for new services address risk through the establishment of:

- selection criteria;

- mandatory information requirements; and

- due diligence reviews of financial and governance arrangements.

By applying a business case and risk assessment approach to the planning and managing of funding agreements with CSOs, the process should devote DHHS resources to higher risk areas as well as ensuring a documented, consistent and structured determination of:

- whether and how to form an agreement; and

- organisational (including financial sustainability) and service delivery risk factors including:

    - CSO organisational governance and management;

    - service type risks and Quality and Safety Standards;

    - service volume and capacity risks; and

    - the value of the funding agreement.

The result of completing the business case and risk assessment should be the approval, or not, to proceed to initiating a funding agreement (or for a program, funding agreements) with a CSO or CSOs.

Business case steps

The key steps in developing a business case are to:

- assess need;

- state purpose and align to outcome;

- confirm funding available;

- define services; and

- determine method.

Application of a business case

It may be appropriate to apply the business case assessment on a broader basis than for each individual agreement. Where a program

has been identified, likely to be comprised of a number of similar individual funding agreements, it would be efficient to prepare the business case on a program basis. This would mirror some of the existing process steps applied by the OCS in preparing a Minute for CRC review, as set out earlier in this report.

Assess need

The first step in the business case process is to assess the evidence for the need for a funding agreement.

This will be initiated and confirmed by the Operational Unit in consultation with the OCS.

State purpose and align to outcome

Discussion of outcomes is addressed later in the report.

However, prior to approving to proceed to a funding agreement the delegate should be satisfied that:

- there is a clear purpose or objective to be achieved; and

- the stated purpose aligns with the broader program outcomes determined as part of the development of the program.

Confirm funding

A key step in the business case process is to confirm the funding source and that the there are sufficient funds available to meet the proposed expenditure under the funding agreement.

This will be initiated and confirmed by the DHHS Operational Unit in consultation with the OCS and finance staff within the Finance and Business Performance Group.

Define services

Operational Units will define the nature of the services or activities that are to be delivered within the funding agreement and the estimated cost of these services.

The clear specification of services is necessary for accountability and for ensuring accurate costing of services.

Defining services requires the identification of the:

- service type;

- appropriate quality and safety standards to be applied for the specific service type;

- the anticipated or expected quantity measure of services to be provided under the funding agreement; and

- the total funding for the services and the basis of funding services under the agreement.

While primary responsibility for defining the services rests with the Operational Units, the OCS should be consulted to assist with the consistent application of service types, quality and safety standards

and costs.

Determine method

There are two methods available to Operational Units for establishing agreements with CSOs. The two methods are to execute:

- a contract after applying procurement processes; or

- a funding agreement after applying grant processes.

Both methods are appropriate methods for establishing agreements with CSO. However, as noted earlier, different Treasurer's Instructions apply to these two processes.

Operational Units must determine the method to be applied. When doing so, managers and staff should consult with the OCS as well as Corporate Units in order to ensure a consistent approach to making this determination.

The basis for the determination should be documented as part of the business case.

Procurement of goods and services

Guidance already exists for procurement processes

Within the Tasmanian Government context, procurement relates to the purchase of goods and services by a government entity for use or consumption directly by the entity.

Procuring services from a CSO will require compliance with the DHHS *Contract Review Committee and Procurement Handbook*, released in February 2007 (the Handbook).

The Handbook has been prepared to ensure DHHS managers and staff comply with the various Treasurer's Instructions issued by the Department of Treasury and Finance in relation to the Government's procurement framework and processes.

The Handbook establishes the processes to be applied, the internal approvals, including delegation thresholds and review processes by the Contracts Review Committee (CRC) over procurement decisions.

Procurements involving significant dollar values, and the thresholds are set in the Handbook, are subject to request for proposal and request for tender processes. The objective is to ensure that best value for money is obtained.

Procurement framework and processes are already addressed in the Handbook, and are not repeated in this Framework. DHHS managers and staff are directed to the Handbook for guidance on procurement.

Funding through funding agreements

Managing grants is different to procurement

This Framework establishes the processes to be applied for planning and managing funding agreements to CSOs.

The Framework is compliant with Treasurer's Instruction TI 709 *Grant Management Framework* which establishes the Government's grant management framework, and provides the high-level guidance for, and responsibilities of, Heads of Agency that manage grant

payments. Operational Unit managers and staff should ensure they are familiar with the requirements of this Treasurer's Instruction.

Method of selecting CSOs to fund

There are a number of ways of selecting CSOs to fund

Once a funding agreement approach is determined, the Operational Unit must then determine the appropriate means of selecting CSOs to fund under a funding agreement.

The typically methods for selecting CSOs involve inviting offers by way of:

- an expression of interest;

- a request for proposal; and

- a request for quotation.

It is the responsibility of Operational Unit managers and staff to determine and document the method to be applied for selecting CSOs.

Determining the most appropriate method may require Operational Units to seek guidance from the OCS or the Contract Legal Support Unit.

CSOs can be directly selected (or 'targeted') through the request for quotation, or selected through broader canvassing including calling for:

- expressions of interest;

- request for proposal; or

- request for quotations.

These broader canvassing options involve processes which are similar to calling for tenders or proposal under the DHHS procurement process.

Within the context of community and human services, these broader canvassing options do not necessarily result in the selection of only one CSO. The processes may identify a range of CSOs throughout the State to be funded through funding agreements.

The determination of the method of selection should be fully documented. The determination will be influenced by:

- the purpose and the dollar value to be allocated;

- the extent of contestability in 'the market' for the services to be provided, and the potential benefit from an open selection process;

- the time elapsed since previously calling for Expressions of Interest for the service being considered;

- whether the service is an existing service, for known client groups and by a known CSO, or a new service not previously delivered within the region or State;

- the extent of evidence that optimum client outcomes are likely to

be achieved when services are provided by particular CSOs; and

- the extent of evidence that particular CSOs:

  - can deliver cost effective services by leveraging existing or additional resources;

  - will enhance public benefit though community development; or

  - offers service benefits through other factors, including location and community engagement.

Risk assessment

Risks need to be assessed in a consistent and structured manner

A 'Risk Assessment Diagnostic Tool' will be required to ensure a consistent and structured assessment of organisational (including financial sustainability) and service delivery risk factors including:

- CSO organisational governance and management;

- service type risks and Quality and Safety Standards;

- service volume and capacity risks; and

- the value of the funding agreement.

All parties have an interest in the assessment of risks

The assessment of risk is best completed by:

- the OCS addressing aspects of CSO-wide risks, including financial sustainability; and

- Operational Units assessing service type risks, service volume and capacity risks and the value of the funding agreement.

The risk assessment diagnostic tool will need to be implemented in a staged manner. Initially the assessment of risks associated with funding agreements should be applied to higher dollar value proposals for funding agreements or proposals for new services.

Over time completion and updating of the risk assessment diagnostic tool should be undertaken upon:

- establishing a new service;

- varying an existing funding agreement;

- reviewing an existing service during the period of a funding agreement;

- reviewing an existing services prior to renewing an existing agreement; and

- at any other time when Operational Units or the OCS become aware of issues affecting services or CSOs that may alter previous assessments of risk.

Risk issues

The risks to be assessed within the 'risk assessment diagnostic tool' are those that may affect the ability of the CSO to:

- contribute to achieving outcomes for clients;

- deliver the services specified in the agreement;

- achieve the required Quality and Safety Standards Framework measures;

- demonstrate appropriate governance and accountability for the use of public monies; and

- demonstrate financial sustainability, to support ongoing service delivery.

The table below summarises categories of risk to be considered within the 'risk assessment diagnostic tool'.

Risk type	Issues to consider in assessing risk	Assessment responsibility
CSO organisation–wide governance and management	- Governance, strategic and organisational planning; - Organisational legal status; - Safe environment for staff, clients and visitors; - Building and fire risk management; - Pre-employment and pre-placement checks and screening; - Financial sustainability; - Financial accountability requirements, including reporting; and - Asset register.	OCS Operational Unit support
Service type and Quality and Safety Standards	- Service complexity; - Highly vulnerable or statutory client groups; - Service performance, reporting and delivery; - Incident reporting and management; - Complaints management – management and frequency of complaints and incidents; - Consumer feedback; - Improvements against the organisations "core standards" set; and - Service innovation.	Operational Unit OCS support
Service volume and capacity	- Capacity of organisation to deliver services identified within the agreement; - Significance of the organisation in the delivery of services in a region or across the State; - Uncertainty of demand for services; and - Impact on DHHS of service delivery failure.	Operational Unit OCS support
Value of funding agreement	Value of annual and total funding	Operational Unit OCS support

Documenting approval to proceed

Documenting decisions is a key control

The Business Case and Risk Assessment templates should provide a formal recording of the approval to proceed to funding agreement and where appropriate, the authorisation of payment based on the execution of a funding agreement consistent with the terms of the business case and risk assessment.

This process will assist in documenting the decisions of the appropriate delegate and contribute to an efficient but controlled process through to payment.

Recommendations

The OCS in conjunction with DHHS Operational and Corporate Units develop a 'Business Case Template' to ensure a consistent and structured assessment of whether, and how, to form an agreement and to document decisions about confirming funding; defining services; determining the form of agreement; and documenting approval to proceed.

The OCS develop a 'Risk Assessment Diagnostic Tool' to ensure a consistent and structured assessment of organisational (including financial sustainability) and service delivery risk factors including:

- **CSO organisational governance and management;**

- **service type risks and Quality and Safety Standards;**

- **service volume and capacity risks; and**

- **the value of the funding agreement.**

Funding agreements

Agree and execute funding agreement

Funding agreements must suit the nature of the transaction

Funding arrangements should be negotiated by the DHHS Operational Unit and the CSO, and offer the right incentives to deliver value for money. The terms and conditions should be agreed in writing before the term of the agreement commences.

Three options of funding agreement are proposed:

- Exchange of letters;

- Short form agreement; and

- Detailed agreement.

These options reflect the different levels of risk associated with each grant arrangement. They accord with Treasurer's Instruction TI 709 *Grant Management Framework* that states that an agreement may be a deed, contract or simply an exchange of letters.

Exchange of letters

The terms and conditions relating to grants of less than $10,000 could

be set out in an exchange of letters between the Director of the Operational Unit and the CSO.

The exchange of letters would document the purpose for which the funds are to be used and require the CSO to immediately acquit the funds once spent. The acquittal would be in the form of a statutory declaration by the Chairperson and the Treasurer of the CSO.

Short form agreement

The terms and conditions relating to grants of less than $100,000 could be set out in plain English short form agreement between the Director of the Operational Unit and the CSO.

The agreement would be negotiated by the Operational Unit and the CSO and document the purpose for which the funds provided and the responsibilities of both DHHS and the CSO.

The agreement would address:

- expected result to be achieved from the funding;

- services to be delivered;

- quantity of services;

- basis of funding including any indexation factors and criteria for variation;

- Quality and Safety Standards Framework information related to the funding agreement;

- payment terms and conditions - including the term of the agreement, timing of payments (including a single installment), indexation and arrangements relating to the return of unexpended grant funds, disputes and termination; and

- reporting and acquittal requirements – including an annual acquittal report and statutory declaration by the Chairperson and Treasurer of the CSO together with the CSO's audited financial statements.

The preparation of the short form agreement would be managed and controlled by the Operational Unit.

While Operational Units have the responsibility for preparing the agreement, preparation will require consultation with the OCS in order to confirm the appropriateness of the price, quantity, quality and safety standards to be incorporated within the agreement. This will ensure a consistent, standardised approach to determining the performance measures as well as contributing to enhanced opportunities for future benchmarking of performance.

Long from agreement

The long form agreement would be mandatory for all agreements for amounts over $100,000.

This form of funding agreement would be similar to the existing standard Service Agreement. The agreement would address:

- expected result to be achieved from the funding;

- services to be delivered;

- quantity of services;

- basis of funding including any indexation factors and criteria for variation;

- Quality and Safety Standards Framework information related to the funding agreement;

- payment terms and conditions - including the term of the agreement, timing of payments, indexation and arrangements relating to the return of unexpended grant funds, disputes and termination; and

- reporting and acquittal requirements – including an annual audited acquittal report and statutory declaration by the Chairperson and Treasurer of the CSO together with the CSO's audited general purpose financial statements.

The agreement would be negotiated by the Operational Unit and the CSO. Agreements should be developed by Operational Units in conjunction with the OCS. In particular, the OCS should be involved in confirming the appropriateness of the price, quantity, quality and safety standards to be incorporated within the agreement.

This will ensure a consistent, standardised approach to determining the performance measures as well as contributing to enhanced opportunities for future benchmarking of performance.

Recommendation   **The term 'Funding Agreement' be adopted as the term that describes the form of agreement for funding grants to CSOs. This term will embrace an exchange of letters, a short form agreement or a long form agreement.**

Funding period

The DHHS policy is to use multi-year funding agreements

Currently, a disproportionately high number of CSOs are funded on one year agreements with 90%[20] of agreements expiring on 30 June 2009. This current situation is not normal. DHHS has a policy to provide multi-year funding agreements. The current situation is a by-product of the significant reforms across the sector and the legitimate decision by the OCS to minimise the number of longer-term agreements in place while reform issues, like the development of the Framework, are being addressed.

The policy of providing multi-year agreements should be re-established once the significant reforms have been implemented.

The UK Model Guidance to Funders and Purchasers highlights that[21]:

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[20] DHHS Internal Audit Report into *DHHS Data Matrix of Grant Agreements*

[21] HM Treasury, *Improving Financial Relationships with the Third Sector: Guidance to funders and purchasers*, May 2006.

- short-term contracts can lead to the diversion of funds into bidding for Government business and away from development and delivery of better services;

- annual renewal processes are costly for both government and the community sector; and

- a short term basis of funding puts at risk care for patients in need of ongoing or permanent care.

Longer term funding allows the community sector to focus on longer-term outcomes rather than short term inputs. Such agreements should focus on performance and include appropriate termination arrangements to guarantee flexibility.

Recommendation   **The Framework enable funding agreements of up to three-years subject to a satisfactory business case and risk assessment and availability of funding over the proposed funding period.**

Monitoring arrangement

Quality and safety performance data

Monitoring performance to ensure value for money and standards

The Quality and Safety Standards Framework proposes collection of information relating to a set of generic standards which relate to the general performance of the CSO, and service specialist standards that relate to the particular services being delivered by the organisation.

The Quality and Safety Standards Framework proposes three elements in the monitoring process. These are outlined below. Operational Units, OCS Quality and Safety Unit and OCS Financial and Performance Unit will all contribute to the monitoring process. In order to ensure monitoring of performance is undertaken in the most efficient and effective manner, clear roles and responsibilities will need to be defined and communicated.

Quality and safety data monitoring processes

The three elements in the monitoring process are:

- Core monitoring;

- Desktop review;

- Service review and routine accreditation reviews.

Core monitoring

Operational Units, with the assistance of the OCS Quality and Safety Unit, will monitor self assessing reports submitted by CSOs on a six monthly basis. These reports will consider the financial sustainability of the organisation (OCS), generic and specialist service standards (OCS and Operational Units).

Desktop review

The OCS Quality and Safety Unit will undertake three monthly desktop reviews which will focus on high risk factors such as highly

vulnerable or statutory client groups, numbers of complaints, financial sustainability.

Service review

Service reviews will be undertaken where on-going concerns or serious risk is identified through a desktop review. These reviews will be led by the OCS Quality and Safety Unit, the CSO and relevant Operational Units.

The cost and quality measures required under the Framework should be reviewed under the six monthly core monitoring process. For example, the review should evaluate quantity information against the draw down of funds, and evaluate for possible variations to funding requirements, either upward or downward. This information should also be evaluated by the Operational Unit as it considers future service needs.

Payment arrangements

Existing payment arrangements do not necessarily match funding with service delivery

The majority of payments under funding arrangements are made on a:

- 40% first quarter;
- 20% second quarter;
- 20% third quarter; and
- 20% fourth quarter.

This basis was negotiated with the community sector. Any changes to payment arrangements will also need to be negotiated with the sector. Changes that are agreed may need to be phased in over time.

The existing payment arrangement means that funding is not necessarily matched with service delivery.

Streamline arrangements for funding agreement up to $100,000

Currently, organisations that receive funding of less than $40,000 are paid in a single payment at the beginning of the financial year. It is recommended that this amount is raised to $100,000.

Based on the earlier analysis of grants managed by the OCS for 2008-2009 this will result in 40% of the number of agreements in place with CSOs able to be paid in a single installment. The total value of these grants is only 5% of the total of grant funds.

A number of CSOs complained of delays in payment and the stress this caused to the organisation, staff and clients. Paying a higher number of grants in a single installment is likely to reduce this complaint.

Report payment performance

Both DHHS and CSOs should be required to meet their respective obligations under the Framework. For those grants paid in installments over the year, the OCS should monitor and report on compliance with payment terms and identify the number and value of payments not made on time. Reporting, on a quarterly basis, should include publication through the DHHS community*Express* website.

Recommendation   **The Framework enable:**

- **a quarterly in advance payment based on planned service delivery for the quarter and adjusted for actual services delivered in the following quarter; and**

- **where service delivery is not a practicable basis for making payments, equal quarterly installments paid in advance; and**

- **a single advance payment of up to $100,000 for an individual funding agreement, subject to a satisfactory business case and risk assessment.**

The OCS monitor and report on compliance with payment terms and identify the number and value of payments not made on time. Quarterly reporting should include publication of performance through the DHHS community*Express* website.

Acquittal processes

The DHHS Audit and Assurance Unit Report into *DHHS Data Matrix of Grant Agreements* noted that common financial accountability and acquittal arrangements apply to all grant agreements regardless of the amount funded or the risk profile of the particular CSO. For each agreement the CSO must provide a:

- certified and audited grant financial accountability report; and

- copy of the CSO's annual report.

CSOs submitted that the acquittal process should be simplified and that a 'one size fits all' approach to acquittal is not be administratively efficient for DHHS or CSOs. Further, it does not consider risks associated with individual grant agreements, including the value of funding.

An acquittal statement, by its nature, sets out how funds received have been spent and identifies any unspent funds. As such, an acquittal statement is a cash-based report.

Financial reports and statements can be prepared in accordance with Australian Accounting Standards as either general purpose financial reports or special purpose financial reports. General purpose financial reports are prepared on an accrual basis. Many CSOs currently prepare general purpose financial reports.

Special purpose reports may be prepared on an accrual basis, but that is not a requirement.

Recommendation   **The Framework enable differing acquittal arrangements to be applied to funding agreement. It is recommended that the following acquittal requirements are incorporated within the following forms of funding agreements:**

- **Exchange of letters – acquittal report submitted once the grant funds are spent by the CSO together with a statutory**

> **declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement;**

- **Short form agreement – annual acquittal report together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement together with submission of the CSO's audited financial statements; and**

- **Long form agreement – annual audited acquittal report together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement together with submission the CSO's audited general purpose financial statements.**

Data provided by CSOs

At the present time, Operational Units are not always aware of the information other Operational Units are collecting from CSOs. As a result, more than one Operational Unit may be requiring an individual CSO to provide the same, or almost identical information as part of the monitoring, reporting or acquittal process.

During the consultations, CSOs advised they would prefer if information could be collected in a consistent manner and that wherever possible information requirements were made to be consistent with other information requirements such as the Minimum Dataset (MDS).

CSOs also expressed an interest in being informed as to how the information they provide will be used.

Where possible, there should be consistency in the information collected across all units of DHHS. The implementation of the Quality and Safety Standards Framework is one way DHHS has already commenced making data collection more consistent. This Framework is another.

DHHS should minimise the monitoring and inspection burden it imposes on CSO to a level proportionate to the risk associated with the funding agreement. The use of the business case and risk assessment tool is designed to achieve this objective.

Cost and quality measures should be agreed between the CSO and the Operational Unit as part of the initiating of a funding agreement. The measures should focus on what is strategically important, and on what is of value to the CSO and DHHS. In summary, the measures should be:

- relevant;

- easy to understand;

- simple to implement;

- reviewed regularly; and

- gradually refined on the basis of experience.

Recommendation   **The OCS, in conjunction with Operational Units and a representative sample of CSOs prepare a baseline study across all programs that fund CSOs to establish:**

- **the information currently being requested of CSOs;**

- **the purpose for which the information is used;**

- **duplications or gaps in the information requested; and**

- **a minimum dataset for future reporting requirements.**

Current grants performance information

Program outcomes

A focus on outcomes and outcome performance will address a concern of the Auditor-General

Many programs do not have clear objectives and outcomes. The Tasmanian Auditor-General's Special Report No. 72 *Public Sector Performance Information* released in April 2008, made recommendations in relation to setting clear objectives and measures in relation to the outcomes of Operational Units.

The Auditor-General commented that there has been an effort by DHHS to develop KPIs within the categories of achievement, quality and access. However, efficiency indicators were not included and grouping of KPIs by category made it difficult to get a sense of performance at the Unit level. The Auditor-General recommended that:

- DHHS encourage business units to develop strategic objectives that are measurable and clearly define what the units are trying to achieve (recommendation 5);

- DHHS develop an integrated management information system to facilitate collection of performance data from itself and CSOs for both internal and external reporting purposes (Recommendation 8);

- Operational Units (Disability Services) include data requirements in service level agreements (Recommendation 9); and

- KPIs be presented at the output group level (recommendation 26)[22].

Treasurer's Instruction TI 709 *Grants Management Framework*, and the comments of the Auditor-General, underline the need for Programs to contain clear objectives and outcomes and that KPIs be developed to indicate progress toward those outcomes.

The current policy agenda (from COAG and through the current DHHS reform program) to align service delivery activities and outputs to broad program level outcomes that reflect the client experience.

Based on our review, many funding agreements include statements setting out goals, objectives or outcomes to be achieved. However, these statements:

- lack consistency;

- are often overly descriptive of process rather than focused on results;

- lack clearly defined indicators of performance; and

- do not necessarily align to DHHS outcomes or Government

[22] Auditor-General, *Special Report No. 72 Public Sector Performance Information*, 2008, pp. 4-8.

strategic priorities.

To enable greater consistency and alignment of outcomes within funding agreements, and 'outcome menu' should be developed by Operational Units in consultation with key stakeholders.

While the program outcomes are the responsibility of the Operational Units, the OCS is best placed to ensure that outcomes are adequately and consistently reflected in funding agreements by providing advice and guidance to Operational Units.

Recommendation   **Operational Units, in consultation with key stakeholders, develop and maintain outcomes and outcome performance information for all programs involving funding to the community sector.**

The OCS quality assure funding agreements to ensure that agreements adequately reflect DHHS program outcomes in a consistent manner, with appropriate and adequate information to support program evaluation.

Service types

Greater consistency in service types descriptions will improve the ability to determine performance measures

The DHHS Audit and Assurance Unit Report into *DHHS Data Matrix of Grant Agreements* found that currently there are 114 service types funded through agreement managed by the OCS.

Review of the listing of service types indicates a significant overlap and duplication in the service type descriptions.

The current number of service types makes it difficult to define the services to be funded by DHHS and delivered by CSOs and specify quality and safety standards relevant for the services. The current number of service types also makes it difficult to differentiate services when collecting and collating baseline costing and performance information.

In order to enhance the opportunities to ensure greater consistency, standardisation and benchmarking a consistent set of 'service type' descriptions are required.

Recommendation   **The OCS in conjunction with Operational Units, Corporate Units and CSOs develop and maintain a consistent set of 'service type' descriptions to be used when describing services within funding agreements.**

Performance measures

Operational Units are currently responsible for preparing the performance measures and indicators contained in Schedule 5 Service Objectives and Reporting to the standard funding agreement.

The DHHS Audit and Assurance Unit Report into *DHHS Data*

Matrix of Grant Agreements found that a significant percentage of agreements do not have tangible outputs or performance indicators or benchmarks included in Schedule 5.

During the consultation process, Operational Units and CSOs reported while some measures have been reviewed, in many funding agreements performance measures have remained unchanged for a significant time. The general consensus was that most agreements do not contain appropriate activity, output or performance measures.

CSOs in particular expressed a desire for clearer descriptions of the results or outcomes that DHHS expects under a service delivery agreement together with service performance information.

The requirements of Treasurer's Instruction 709 *Grants Management Framework* underline the need for funding agreements to clearly define services to be provided and performance measures.

The direction of the current policy agenda (from COAG through the current DHHS reviews) is to align service delivery activities and outputs to broad program level outcomes that reflect the client experience.

In order to achieve greater consistency in establishing outcome performance and service delivery, quality and quantity standards, the OCS should undertake quality assurance reviews of business cases and funding agreements. Given the number and range of likely business cases and funding agreements, the quality assurance reviews will need to be implemented on a staged basis over time.

Recommendation **The OCS undertake quality assurance reviews of business cases and funding agreements to ensure they adequately address the outcome performance and service delivery quality and quantity standards, including the Quality and Safety Standards Framework requirements appropriate for the nature of the services being funded.**

Funding and costing of services

Funding for existing agreements remains based on historic allocations adjusted by indexation.

CSOs expressed concern as to the basis of indexation for grant funding. The current indexation policy was agreed as part of the Department's 2007-2008 budget development process and has continued into the 2008-2009 budget. Indexation is based on 80 percent of the public sector salary indexation factor and 20 per cent of a non-salary indexation factor. The formula is not tied to actual salary increases or other specific cost increases experienced by CSOs.

The indexation basis is consistent with the indexation supplementation received by the DHHS as part of its annual budget development as advised by Treasury. It is not proposed to change these indexation arrangements.

The historically based funding approach and indexation of the

funding base is a simple and consistent model for determining funding, however this approach has limitations.

Limitations of existing funding approach

Funding that is historically-based does not support transparency and accountability

The existing historically based funding approach, has significant limitations in that the approach lacks:

- a defined relationship between funding and the quantity, quality, or safety of services being delivered; or

- a direct assessment of CSOs funding requirements in order to address clients' needs.

Further, because existing agreements are historically based and new agreements are individually costed, inconsistencies in funding levels have been identified between agreements for similar service types.

This historic approach means there is little within the funding approach that supports the principles of:

- transparency of funding;

- accountability for service delivery to specific standards of quality and safety; and

- a focus on outcomes for clients.

Improving transparency and accountability of funding

Clearly identify what the funding is for – services or capacity building and innovation

Transparency of funding can be improved by adopting, where appropriate and applicable, two separate streams of funding within a single funding agreement. This would see agreements with:

- Service Delivery Funding - funding for defined services (or the capacity to delivery defined services), to quality and safety standards and quantity measures; and

- Capacity Building and Innovation Funding - funding for specific and defined initiatives, including capacity building, skills development and infrastructure.

Further, where DHHS is simply providing a contribution to costs being incurred by a CSO, without relationship to service delivery, the funding agreement should make it clear that the funding is only a contribution to costs.

Treatment of surpluses and deficits

The treatment of unexpended grants funds (surplus funds) or deficits for service delivery is a common complaint that CSOs have in relation to funding agreements. A commonly expressed view from representatives of CSOs was that 'DHHS wants to recoup surpluses but will not contribute to any deficits incurred'. This commonly expressed view has not been tested, however it ignores the ability of CSOs (under the Standard Service Agreement) to:

- carry forward unexpended grant funds equal to the lesser of 5% of grant, interest and fee income, or $10,000;

- seek additional funding for one-off or recurring cost increases due to renegotiation of an industrial award; or

- approach the Operational Unit to negotiate a variation to the existing agreement.

The treatment of surpluses and deficits is further complicated because:

- existing agreements typically do not relate funding to service delivery; and

- agreements lacking any measure of the quantity of service expected to be delivered under the funding agreement.

As a result it is not possible to determine whether a surplus or deficit is due to:

- lower or higher than expected quantities of service delivery;

- efficiencies or inefficiencies in service delivery; or

- poor budgeting in the first place.

Recommendations   **The Framework enable funding agreements with two streams of funding identified for:**

- **service delivery funding; and**

- **capacity building and innovation funding.**

Funding agreements state the basis of funding and its relationship to service delivery and any funding limits, or state that funding is a contribution to the costs of the CSO.

Funding agreements based on service delivery specify the treatment of surpluses or deficits arising because of changes in quantity of service delivery.

Developing an approach to benchmarking costs

To benchmark costs and non-financial performance, requires better service type descriptions

There is no generally accepted single model for the costing services provided by CSOs.

Within some Operational Units, processes for a regular review of both the service program and the individual service agreements, including costing, are being implemented.

However, these processes may be overly complex and time consuming for many service types or Operational Units. They may also impose costs on CSOs, without offering significant benefits to the organisation.

One alternative is to develop benchmarked costs for services.

It will take time for DHHS to collect and develop the information required to benchmark costs of services. Preparing for a

benchmarking process will require the implementation of interim steps such as:

- reducing and defining service types;

- defining levels of quantity and quality for services currently being funded;

- defining performance measures consistent with the Quality and Safety Standards Framework; and

- undertaking baseline costing surveys.

Any approach to costing of services requires recognition that a 'one size fits all' approach for costing is not appropriate. This is particularly evident when services are being delivered in a variety of locations across the State, and in some locations factors such as levels of demand, organisational size or travel time reduce the ability of CSOs to deliver services for the same average cost.

DHHS is currently seeking tenders to develop a service pricing mechanism based on unit based costing for Disability Services, Family Support Services, Out of Home Care and the Gateway Service. The contract is due for completion by 31 October 2009.

In that request for tender, DHHS has identified that:

- resource allocation (or funding) will also be underpinned by a transparent model of determining resource levels for particular services;

- there will be consideration of differences in the cost of providing services between areas in the resource allocation model; and

- unit pricing will not be used where it is not an effective funding approach for a particular service element.

There will be instances, across the spectrum of CSO funding agreements, where funding on a per unit basis is not effective or efficient. The Framework will need to provide for all types of funding that DHHS may wish to provide to CSOs. This will need to include:

- service delivery funding on a per unit basis or contribution basis; and

- other funding (for capacity building or innovation) on a per unit basis or contribution basis.

The funding basis selected will need to balance administrative efficiency for DHHS as well as CSOs, with appropriate transparency and accountability for the use of public funds.

Recommendation **The OCS implement the interim steps necessary to enable future benchmarking of costs. These steps will include:**

- **developing a consistent set of 'service type' descriptions;**

- **defining levels of quantity and quality for services currently being funded;**

- **defining performance measures consistent with the Quality and Safety Standards Framework; and**

- **undertaking baseline costing surveys.**

The OCS monitor the progress of, and identify any developments from, the Reform Implementation Unit service pricing study, planned for 2009.

Delegated roles and responsibilities

Current delegations and approvals

Current delegations for grants mirror the procurement delegations

The Handbook and Delegations set out the following delegated roles and responsibilities and thresholds in relation to grants.

Approval to proceed

The Handbook addresses approval to proceed with a grant and sets out threshold limits for approvals. If the grant is:

- an allocation of less than $100,000 - approval by the CRC is not required;

- an allocation of $100,000 and more - approval by the CRC is required; and

- made under the *Disability Services Act 1992* - approval of the Minister is required.

Formal acceptance and execution of a contract

The Handbook addresses the execution of a contract (or any document that enters the Crown into a commitment) for a grant and sets out threshold limits to execute contracts. If the contract is:

- less than $50,000 – the delegates for signing documents for grant allocations are the Deputy Secretaries, CEOs and Directors;

- $50,000 and over up to $3,000,000 – the delegate for signing contracts for grant allocations is the Secretary; and

- $3,000,000 and more – the delegate for signing contracts for grant allocations is the Minister.

The Handbook thresholds are inconsistent with the Delegations which set the delegations thresholds to approve grants of financial assistance to individuals, organisations or public bodies excluding disability grants at:

- less than $50,000 – the delegates for signing contracts for grant allocations are the Deputy Secretaries, CEOs and Directors;

- $50,000 and over up to $5,000,000 – the delegate for signing contracts for grant allocations is the Secretary; and

- $5,000,000 and more – the delegate for signing contracts for grant allocations is the Minister.

The Delegations set out that only the Minister is the delegate able to approve grants of financial assistance to individuals or organisations to establish or maintain services for persons with a disability.

While there are inconsistencies, the Delegations were issues in September 2008 and are more likely to be up to date, however, as recommended earlier in this Report, the Handbook needs to be updated.

Authorise of expenditure

The Delegations set out the threshold limits in relation to authorisation of expenditure, which is the approval of payments for amounts up to the delegated limits. The threshold amounts are:

- less than $5,000 – delegates from a DHHS Delegate Group 6;

- less than $10,000 – delegates from a DHHS Delegate Group 5;

- less than $20,000 – delegates from a DHHS Delegate Group 4 – including the Manager, Finance and Performance (OCS) but only as they relate to that part of the Department's administered payments budget managed by the OCS;

- less than $50,000 – delegates from DHHS Delegate Group 3;

- less than $500,000 – delegates are Operational Unit CEOs and Directors (DHHS Delegate Group 2);

- less than $1,000,000 – delegates are Deputy Secretaries (DHHS Delegate Group 1); and

- greater than $1,000,000 – delegates are the Chief Finance Officer and the Secretary.

Unlike the Treasurer's Instructions in relation to procurement, Treasurer's Instruction TI 709 *Grant Management Framework* does not impose threshold limits in relation to the approval to proceed, execution of documentation or authorisation of expenditure.

The risks associated with establishing a commitment of the Crown or the expenditure of public monies under funding agreements with CSOs are different to the risks associated with general contracts and procurements. Funding agreements with CSOs are typically:

- of a partnership relationship;

- of an on-going or recurring nature;

- with known CSOs;

- delivering specified services addressing community need; and

- are subject to monitoring and financial accountability checks, including the recoupment of unspent grant funds.

In relation to Disability Services, there is the requirement for Ministerial scrutiny of grants.

These conditions are not always addressed in a procurement arrangement. These conditions reduce the risk profile of funding agreements with CSOs, and offer an opportunity to structure delegated responsibilities to reflect these diminished risks.

The Framework proposes that delegated responsibilities in relation to funding agreements should be viewed differently from procurement delegations.

Framework approval to proceed

The Framework proposes that the business case and risk assessment be completed for funding agreements (or for a program of grants) and that the approval to proceed is documented after review of the business case and risk assessment.

The following threshold limits to are recommended to apply to the approval of a business case and risk assessment to proceed to a funding agreement:

- an allocation of less than $100,000 - approval by Operational Unit CEOs and Directors;

- an allocation of $100,000 and more, but less than $250,000 - approval by Operational Unit CEOs and Directors after obtaining the agreement of the Director of the OCS, with reporting to the CRC; and

- an allocation of $250,000 and more – recommended by Operational Unit CEOs and Directors, quality assured by OCS and recommended to the CRC for CRC approval to proceed.

Where necessary, managers should seek additional guidance

The delegations limits must be viewed as a 'hard ceiling' that cannot be exceeded.

However, Operational Units and the OCS should apply the thresholds in such a manner that proposed funding agreements identified as having an element of risk, that agreement should be passed on to the OCS or CRC for review, even if the value of the proposed agreement falls within the delegated limits.

Based on the earlier analysis of the 2008-2009 grants managed by the OCS, these proposed delegation thresholds will see 50% of the number of agreements approved without the requirement to involve the CRC. However, the CRC will still approve 91% of the value of funding agreements.

New services or CSOs

Business cases and risk assessments involving new services or new CSOs should be subject to CRC review of the business case and risk assessment, if the allocation is $100,000 or more.

Delegations for execution of a funding agreement

The following threshold limits are recommended to apply to the execution of a funding agreement (or any document that enters the Crown into a commitment) for a grant. If the annual funding under a funding agreement is:

- less than $100,000 – the delegates for signing funding agreements for grant allocations are the Operational Unit CEOs and Directors;

- $100,000 and over up to $250,000 – the delegate for signing funding agreements for grant allocations is the Director of the OCS;

- $250,000 and over up to $5,000,000 – the delegate for signing funding agreements for grant allocations is the Secretary; and

- $5,000,000 and more – the delegate for signing funding agreements for grant allocations is the Minister.

Delegations authorising of expenditure

The existing delegations to authorise expenditure appear to provide administrative flexibility, while maintaining adequate control over the spending of public monies. No changes are recommended to the delegations to authorise expenditure.

The *Disability Services Act 1992* and the Delegations identify the Minister as the only delegate able to approve grants of financial assistance to individuals or organisations to establish or maintain services for persons with a disability.

Recommendations

Delegations for funding agreements be altered to better reflect the nature of the agreements.

The following threshold limits to are recommended to apply to the approval of a business case and risk assessment to proceed to a funding agreement:

- **an allocation of less than $100,000 - approval by Operational Unit CEOs and Directors;**

- **an allocation of $100,000 and more, but less than $250,000 - approval by Operational Unit CEOs and Directors after obtaining the agreement of the Director of the OCS, with reporting to the CRC; and**

- **an allocation of $250,000 and more – recommended by Operational Unit CEOs and Directors to the CRC for CRC approval to proceed.**

The following threshold limits are recommended to apply to the execution of a funding agreement (or any document that enters the Crown into a commitment) for a grant. If the annual funding under a funding agreement is:

- **less than $100,000 – the delegates for signing funding agreements for grant allocations are the Operational Unit CEOs and Directors;**

- **$100,000 and over up to $250,000 – the delegate for signing funding agreements for grant allocations is the Director of the OCS;**

- **$250,000 and over up to $5,000,000 – the delegate for signing funding agreements for grant allocations is the Secretary; and**

- **$5,000,000 and more – the delegate for signing funding agreements for grant allocations is the Minister.**

Clarifying the roles and responsibilities

The DHHS Audit and Assurance Unit Report into *DHHS Data Matrix of Grant Agreements* found that neither the OCS nor individual Operational Units takes an overall governance coordination role in relation to managing funding agreements.

The internal consultations identified that:

- the different roles and responsibilities were poorly understood;

- the financial management responsibilities in relation to grants rested with the OCS; and

- Operational Units consider the current planning process is poorly understood, and that it is overly complicated and time consuming.

Roles and responsibilities within DHHS need to be defined and communicated

The proposed Framework is premised upon clear lines of accountability from both the Operational Unit and the OCS to the Secretary for the activities for which area is responsible.

It proposes that the Operational Unit should have primary responsibility for the initiation of funding agreements and the monitoring and review of service level quality, safety finance and performance measures.

The OCS will have primary responsibility for maintaining the various policy frameworks under which funding agreements are initiated, monitored and evaluated. The OCS will also monitor the organisation level sustainability, quality, safety finance and performance measures within the funding agreement.

Further clarity of roles and responsibilities would be achieved if the OCS entered into a Memorandum of Understanding with Operational Units to define role and responsibilities in initiating, managing and finalising funding agreements.

These roles and responsibilities need to be defined and agreed and communicated to DHHS staff.

Recommendations **The roles and responsibilities for the OCS and Operational Units are defined and communicated through a Memorandum of Understanding.**

The Integrated Financial and Performance Framework

What is a Framework?

A "framework" is "an essential supporting structure; a basic system"[23] or "a set of ideas, principles, agreements, or rules"[24].

The Integrated Financial and Performance Framework (the Framework) is a set of guiding principles and a structured and consistent basis for planning and managing funding to Community Sector Organisations (CSO).

While the Framework is to provide guidance. The Framework is not intended to be overly prescriptive, particularly given the diverse range of DHHS funding programs, in terms of:

- outcomes to be achieved;

- services to be delivered;

- basis of funding; and

- dollar values involved.

The Framework is to provide flexible guidance, within broad parameters, to enhance efficiency and effectiveness of planning and managing funding decisions, within the same overall structured system.

Objective of the framework

The objective of the Framework is to enhance the efficiency and effectiveness of planning and managing funding decisions by the Department of Health and Human Services (DHHS).

Definitions

Key definitions applied within the Framework are:

"'Grant' means any assistance by way of a sum of money or other resource provided to an organisation or individual by the Government on the condition that the assistance is used for a specified purpose, and where the grantor receives no direct economic benefits in return for the assistance provided."[25]

"'Funding agreement' is a legally enforceable Agreement in writing, setting out the terms and conditions regarding the establishment and administration of grants. These terms and conditions are determined by the grantor."[26]

Under these definitions, a grant does not include funding of activities

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[23] The Australian Concise Oxford Dictionary, 1992

[24] Encarta Concise English Dictionary, 2001

[25] Treasurer's Instruction, TI 709 *Grant Management Framework*, 2008, p. 1.

[26] Treasurer's Instruction, TI 709 *Grant Management Framework*, 2008, p. 1.

relating primarily to the provision of goods and services directly to a government agency. These activities are governed by the Treasurer's Instructions and DHHS specific guidance relating to procurement.

Underlying principles of the framework

The Framework incorporates five key underlying principles. These are set out below.

Results Focused

DHHS and CSOs focus upon achieving planned objectives and results for the individual, family or community recipients of services.

Mutual Regard

DHHS and the community sector recognise that engagement, defined roles and responsibilities, professionalism and judgement are needed to achieve results and deliver services.

Transparency, Accountability and Sustainability

Funding and performance arrangements between DHHS and the community sector be transparent, enable accountability and support services in a sustainable manner.

Value for Money

Funding and performance arrangements between DHHS and the community sector demonstrate value for money, recognising that services need to meet quality and safety standards at an agreed level of cost

Continuous Improvement

The individuals and families receiving services, and the Tasmanian community, expect that DHHS and the community sector will focus on continually improving services, standards and management arrangements.

Overview of the framework

The Framework is separate from other DHHS processes for planning and management, including:

- the broader DHHS strategic and business planning and evaluation processes which apply to all activities, not just the funding of CSOs; and

- the DHHS procurement process, which is an alternate process for procuring services from CSOs.

The elements of the Framework are identified in the overview diagram below.

Department of Health and Human Services - Broader Program Planning and Evaluation Processes

Office for the Community Sector - Integrated Financial and Performance Framework

Program Evaluation
- Program outcomes
- Funding agreement outcomes
- Unintended outcomes identified
- Processes improved

Performance Reporting & Monitoring
- Service delivery
- Quality and Safety Standards
- Governance and financial sustainability
- Cost of services
- Acquittal of funds

Initiate Funding Agreement
- Invite offers
- Evaluate offers
- Service delivery: Letter, Short form, Long form
- Capacity building
- Agree and execute

Manage Funding Agreement
- Core, Desktop, Review
- Monitor progress
- In advance, On delivery, Quarterly
- Make payments

Finalise Funding Agreement
- Review acquittal and reporting
- Review financial sustainability
- Review service delivery
- Identify changes and improvements

Business Case
- Assess need
- State purpose and align to outcome
- Confirm funding available
- Define services
- Determine method: procurement or grant by funding agreement
- direct targeting or Expression of Interest

Approval to Proceed

Risk Assessment
- Analyse risks:
- organisation governance and management
- service type risks and Quality and Safety Standards
- service volume and capacity risks
- value of funding agreement
- Assess risks
- Determine treatment

Funding Agreement Outcomes
- State outcome

Program Outcomes
- Strategic priorities of Government
- Policy initiatives
- Budget priorities
- Future Communities
- Future Health
- Reform program

Funding agreement outcomes

Each funding agreement should set out the outcomes or results that are expected to be achieved because of the funding.

Operational Units are responsible for the development, monitoring and review of Programs under which individual funding agreements are agreed, which result in funding to CSOs.

A Program is the prerequisite for planning and managing funding agreements services with CSOs. Developing the Program enables the DHHS Operational Unit to identify:

- client need for service;

- service delivery type and location;

- service agreement type; and

- Program level outcomes.

Business case and risk assessment

The Framework applies a business case and risk assessment approach to the planning and managing of funding agreements with CSOs. This is to ensure a documented, consistent and structured determination of:

- whether and how to form an agreement; and

- organisational (including financial sustainability) and service delivery risk factors including:

  - CSO organisational governance and management;

  - service type risks and Quality and Safety Standards;

  - service volume and capacity risks; and

  - the value of the funding agreement.

The result of completing the business case and risk assessment should be the approval or not to proceed to initiating a funding agreement with CSOs.

Business case

The DHHS Operational Unit will develop the business case.

The business case provides decision makers the opportunity to assess proposals and decide how resources are prioritised and allocated.

The business case should test that the services to be funded are clearly defined and align to meeting desired outcomes, and that the proposed funding agreement represents the most efficient and effective way of achieving the desired outcome.

The key steps in developing a business case are to:

- assess need;

- state purpose and align to outcome;

- confirm funding available;

- define services; and

- determine method.

Two key question must to be addressed as part of the business case. These are:

> *Is the desired outcome better achieved using a procurement or grant process?*

And if it is determined that a grant process should be applied:

> *Is the desired outcome better achieved by targeting CSOs or by calling for expressions of interest?*

Should the business case determine a procurement process, then the guidance to be followed is available in the DHHS *Contract Review Committee and Procurement Handbook*.

Risk assessment

The assessment of risk is to be completed by:

- the OCS addressing aspects of CSO-wide risks, including financial sustainability; and

- Operational Units assessing service type risks, service volume and capacity risks and the value of the funding agreement.

The risks to be assessed within the risk assessment are those that may affect the ability of the CSO to:

- contribute to achieving outcomes for clients;

- deliver the services specified in the agreement;

- achieve the required Quality and Safety Standards Framework measures;

- demonstrate appropriate governance and accountability for the use of public monies; and

- demonstrate financial sustainability, to support ongoing service delivery.

The table below summarises categories of risk to be considered as part of the risk assessment.

Risk type, issues and assessment responsibility

Risk type	Issues to consider in assessing risk	Assessment responsibility
CSO organisation–wide governance and management	• Governance, strategic and organisational planning; • Organisational legal status; • Safe environment for staff, clients and visitors; • Building and fire risk management; • Pre-employment and pre-placement checks and screening; • Financial sustainability; • Financial accountability requirements, including reporting; and • Asset register.	OCS Operational Unit support
Service type and Quality and Safety Standards	• Service complexity; • Highly vulnerable or statutory client groups; • Service performance, reporting and delivery; • Incident reporting and management; • Complaints management – management and frequency of complaints and incidents; • Consumer feedback; • Improvements against the organisations "core standards" set; and • Service innovation.	Operational Unit OCS support
Service volume and capacity	• Capacity of organisation to deliver services identified within the agreement; • Significance of the organisation in the delivery of services in a region or across the State; • Uncertainty of demand for services; and • Impact on DHHS of service delivery failure.	Operational Unit OCS support
Value of funding agreement	• Value of annual and total funding	Operational Unit OCS support

Approval to proceed to funding agreement

The 'outputs' of completing the business case and risk assessment processes will be:

• a business case setting out the funding proposal;

• a risk assessment considering and making an assessment of the risks associated with the funding proposal;

• a decision approving the business case, and if approved;

• a funding agreement with the CSO specifying the conditions upon which the funds are provided, including:

   • funding agreement outcome;

   • the funded services;

- quality and safety standards to be applied;

- quantity measures for services to be delivered;

- basis for funding the CSO;

- treatment of surplus funds; and

- reporting and monitoring arrangements, including where appropriate acquittal statements and audited financial statements.

Approval is required to proceed to enter into discussions and negotiations with individual CSOs or to call for an Expression of Interest. In effect, this is approval of the business case and a decision to put the business case into effect.

Phases of planning and managing funding to CSOs

The Framework is based in part on the *Tasmanian Government Project Management Guidelines* which identify the three generic phases of a project as being:

- initiate;

- manage; and

- finalise. [27]

Each of these phases has been adapted to address the key processes in planning and managing funding to CSOs. While each of these phases will be completed over the life of a funding agreement, it is important to recognise that the phases and processes are dynamic and may not necessarily follow the linear order.

These phases and the key processes are described below.

Initiate funding agreement

Invite offers

Each situation requiring the consideration of funding through a funding agreement is different, and will need to be considered on its merits. As a result there is no one preferred option for determining whether a targeted approach to inviting offers from CSOs should be followed, or whether broader canvassing of the sector is required.

Factors to be considered in determining the approach are:

- levels of funding involved are known or are generally less than $100,000 for the funding period;

- the purpose and the dollar value to be allocated;

- the extent of contestability in 'the market' for the services to be provided, and the potential benefit from an open selection process;

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[27] Department of Premier and Cabinet, *Tasmanian Project Management Guidelines version 6.0*, 2005, pp.4-5.

- the time elapsed since previously calling for expressions of interest or proposals for the service being considered;

- whether the service is an existing service, for known client groups and by a known CSO, or a new service not previously delivered within the region or State;

- the extent of evidence that optimum client outcomes are likely to be achieved when services are provided by particular CSOs;

- offers service benefits through other factors, including location and community engagement;

- the extent of evidence that particular CSOs:

  - can deliver cost effective services by leveraging existing or additional resources; and

  - will enhance public benefit though community development.

Evaluate offers

The evaluation of quotations, proposals, or expression of interest will involve an assessment of responses against selection criteria established as part of the business case and risk assessment. These will include:

- outcomes to be achieved – against the funding agreement outcomes;

- services to be delivered – against the Quality and Safety Standards Framework and quantity of services required; and

- level of funding required or proposed costs of services provided by CSOs.

Improving transparency and accountability of funding

Transparency of funding can be improved by adopting, where appropriate and applicable, two separate streams of funding within a funding agreement. The Framework anticipates agreements with:

- Service Delivery Funding - funding for defined services (or the capacity to delivery defined services), to quality and safety standards and quantity measures; and

- Capacity Building and Innovation Funding - funding for specific and defined initiatives, including capacity building, skills development and infrastructure.

Further, where DHHS is simply providing a contribution to costs being incurred by a CSO, without relationship to service delivery, the funding agreement should make it clear that the funding is only a contribution to costs.

Agree and execute funding agreement

Funding arrangements should be negotiated by the DHHS Operational Unit and the CSO, and offer the right incentives to deliver value for money. The terms and conditions should be agreed

in writing before the term of the agreement commences.

The Framework incorporates three alternative forms of funding agreement being:

- Exchange of letters – typically used for straightforward funding agreements for amounts less than $10,000;

- Short form agreement – typically used for non-personal services, for example advocacy, information services, peak body funding, and rental assistance and for amounts less than $100,000.

- Detailed agreement – based on the Standard Funding Agreement.

These options selected should reflect the different levels of risk associated with each funding arrangement. These options accord with Treasurer's Instruction TI 709 *Grant Management Framework* that states that an agreement may be a deed, contract or simply an exchange of letters.

Manage funding agreement

The key processes of the managing phase involve:

- monitoring the performance of CSOs; and

- making payments of funds to CSOs.

Funding agreements will specify performance measures based on the Quality and Safety Standards Framework.

The OCS will provide a quarterly report to the DHHS Executive on the performance of the community sector in meetings its obligations under the Framework.

Monitor

The Framework has three key monitoring processes. These are:

- Core monitoring – six monthly monitoring of self assessing reports provided by CSOs;

- Desktop review – quarterly reviews focusing on high level risk issues; and

- Service review and routine accreditation reviews – more extensive review prompted by issues identified through the desktop review or through identified risks or on-going concerns.

These monitoring processes are established by the Quality and Safety Standards Framework.

Make payments

Payments under funding agreements should be made:

- quarterly in advance based on planned service delivery for the quarter and adjusted for actual services delivered in the following quarter; and

- in equal quarterly installments paid in advance, where service

delivery is not a practicable basis for making payments; and

- as a single advance payment of up to $100,000 for an individual funding agreement, subject to a satisfactory business case and risk assessment.

Both DHHS and CSOs have obligations under the Framework. This included DHHS meeting agreed payment terms.

Differing acquittal arrangements should be established under funding agreements depending upon:

- the value of the grant funds involved;

- the purpose for which the funds are to be used; or

- the level of risk associated with the funding agreement.

Different forms of acquittal that should be considered under funding agreement include:

- Exchange of letters – immediate acquittal report when funds are spent with a Statutory Declaration provided by the Chairperson and Treasurer of CSO;

- Short form agreement – acquittal report of funds spent with a Statutory Declaration provided by the Chairperson and Treasurer of CSO together with audited financial statements of CSO; and

- Detailed agreement – audited acquittal report and audited financial statements.

Finalise funding agreement

Finalising the funding agreement focuses on a joint review by the DHHS Operational Unit, the CSO and the OCS at the end of the term of the agreement focusing on:

- acquittal and annual reporting

- financial sustainability

- service delivery; and

- identifying improvements.

The evaluation will be undertaken from an individual organsiation perspective and to identify systemic improvements that may have wider application to a class, or all, funding agreements.

Acquittal and reporting

Differing acquittal and reporting arrangements are established under the different forms of funding agreements. These arrangements are:

- Exchange of letters – acquittal report submitted once the grant funds are spent by the CSO together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement;

- Short form agreement – annual acquittal report together with a statutory declaration by the Chairperson and the Treasurer of the

CSO that the funds have been used in accordance with the funding agreement and the CSO's audited financial statements; and

- Long form agreement – annual audited acquittal report together with a statutory declaration by the Chairperson and the Treasurer of the CSO that the funds have been used in accordance with the funding agreement and the CSO's audited general purpose financial statements.

Review financial sustainability

The review allows the opportunity for a broader review of the CSO, its future directions and longer-term sustainability. It will help determine whether the funding agreement requires modifications as prior to re-negotiation.

The review of financial sustainability may consider:

- identified changes in demand for the services provided and the cost of services delivery;

- ways to improve the efficiency and effectiveness of the services provided under the funding agreement;

- ways to improve the efficiency and effectiveness of the way the funding agreement is administered; and

- evaluate the overall financial sustainability of the CSO delivering the service.

Review of service delivery

The review of service delivery under a funding agreement may consider:

- the actual outputs and activities delivered compared to the target outputs and activities included in the funding agreement;

- service delivery standards achieved as part of the Quality and Safety Standards Framework;

- identified changes in demand for the services provided and the cost of services delivery;

- whether the information being provided by the CSO for performance monitoring or other reasons, is still appropriate; and

- the contribution which the services provided have contributed to the overall Grant Program Outcomes.

Identify changes and improvements

The dynamic and complex nature of the services being delivered by CSOs, together with the ongoing need to demonstrate value for money and improvements in services standards require that regular reviews of funding agreements take place. The review process will need to be completed throughout the life of a funding agreement and at the end of a funding agreement, prior to re-negotiating or renewing

the agreement.

This review will necessarily need to consider financial performance and sustainability of the CSO as well as desired improvements or changes to the Quality and Safety Standards Framework, including for example achieving a higher standard of accreditation.

The review will need to be undertaken from an individual CSO perspectives, but it may identify changes and improvements that have a wider application across all funding agreements.

Performance reporting and monitoring

The Framework has a focus on developing an integrated set of performance measures to be used to assist Operational Units and the OCS to plan and manage funding agreements with CSOs. An integrated model of performance must reflect both financial and non-financial aspects of performance.

Taken together these measures will enable a consistent and standarised approach to measuring performance and will enable benchmarking and comparisons of service. A consistent and standarised approach to performance measures will also ensure that opportunities for improvements in service delivery and value for money are more likely to be identified.

The key performance measures identified within the framework are:

- measures of service delivery;
- Quality and Safety Standards Framework standards and measures;
- measures of governance and financial sustainability;
- cost of services; and
- acquittal of funds.

Transition and implementation

Challenges for implementation

The implementation of the Framework will need to be staged – with the focus on higher value funding agreements initially

Implementation of the Framework will occur during 2009 and into 2010.

Implementation of the Framework will be driven by the OCS, working in partnership with CSOs, as well as DHHS Operational and Corporate Units and the Reform Implementation Unit.

Implementation of the Framework will have an impact on current roles and responsibilities, capacity and processes for Operational Units, the OCS and CSOs.

The implementation issues are significant for Operational Units and OCS and the challenges of implementation need to be recognised.

Training and skills development for DHHS staff and CSOs will be needed for the implementation to be successful

Successful implementation will require attention to both the behavioural and technical aspects of the proposed changes. This will require cultural and attitudinal shifts, skills and capacity development and opportunities for partnership building. The development of 'template tools' and policy guidance, as well as improving communication, training and skills development are all elements of the implementation plan.

The implementation of the Framework must take account of competing priorities within the DHHS reform agenda, and the resources available to support the implementation. These factors will require the adoption of a staged or transitional implementation of the Framework.

Implementation must also take account of the competing work pressures on Operational Units and CSOs. One way to achieve this is through Working Party to oversight the implementation of the Framework, with representatives from the OCS, Operational Units, the Reform Implementation Unit, Corporate Units and CSOs. The Working Party would provide input and advice to the OCS about competing priorities and on the timing and implementation of elements of the Framework.

The implementation should give highest priority to the application of the business case and risk assessment elements of the Framework to funding agreements of more significant value. The initial focus should be on funding agreements greater than $250,000 of value.

Specific framework implementation issues

Suggested Framework Implementation Plan		2009						2009-2010
Implementation issue	Priority	January	February	March	April	May	June	
Finalise and approve the Integrated Financial and Performance Framework	High		✓					
Seek Treasury approval of Framework	High		✓					
Map processes and identify working arrangements for the OCS and Operational Units	High			✓				
Develop business case template and guide for completion	High			✓				
Develop risk assessment diagnostic tool and guide for completion	High			✓				
Develop template funding agreements, including template letter, short form and long form agreements	High			✓	✓			
Develop outcomes menu	High			✓	✓			
Develop standard service types and descriptions	High			✓	✓			
Develop MOU for OCS and Operational Units	High				✓	✓		
Develop and maintain CSO Communication strategy	High			✓	✓	✓	✓	✓
Develop monitoring tools with Quality and Safety Standards Framework	High				✓	✓		
Develop a training and skills development strategy for OCS, Operational Units and CSOs	High				✓	✓		
Review and tailor Treasury Financial Management and Education and Training courses: *Financial Fundamentals Understanding Performance Information Managing Grants Developing a Business Case*	Moderate				✓	✓		
Deliver tailored training for OCS, Operational Units and CSOs	Moderate						✓	✓
Revise delegations	Moderate					✓		
Develop acquittal report	Moderate						✓	

Riley & Riley
Strategy Advisers

Suggested Framework Implementation Plan		2009						2009-2010
Implementation issue	Priority	January	February	March	April	May	June	
forms								
Develop acquittal statutory declaration	Moderate					✓		
Review financial sustainability checklist	Moderate						✓	
Update the Handbook for TI 709; Delegations; DHHS structure and Framework	Low						✓	
Review data being provided by CSOs	Low							✓
Develop benchmark costs	Low							✓

Recommendations   **The Framework is implemented progressively for 2009-2010 funding agreements, with the initial focus on existing funding agreements and agreements for new services greater than $250,000 in value.**

The OCS incorporate the Framework Implementation plan into the OCS Unit work plans for the second half of 2008-2009 and for 2009-2010.

High level process maps

The following high level process maps set out the process flows to apply the Framework to the planning and management of funding agreements to CSOs.

In implementing the Framework, these high level process maps need to have detailed actions, steps and management responsibilities set out and applied in a staged manner so that the Framework is initially applied to higher value existing funding agreements and agreements for new services.

Department of Health and Human Services - Broader Program Planning and Evaluation Processes

Office for the Community Sector - Integrated Financial and Performance Framework

Program Outcomes
- Strategic priorities of Government
- Policy initiatives
- Budget priorities
- Future Communities
- Future Health
- Reform program

Funding Agreement Outcomes
- State outcome

Business Case
- Assess need
- State purpose and align to outcome
- Confirm funding available
- Define services
- Determine method:
  - procurement or grant by funding agreement
  - direct targeting or Expression of Interest

Approval to Proceed

Risk Assessment
- Analyse risks:
  - organisation governance and management
  - service type risks and Quality and Safety Standards
  - service volume and capacity risks
  - value of funding agreement
- Assess risks
- Determine treatment

Initiate Funding Agreement
- Invite offers
- Evaluate offers
- Service delivery
- Capacity building
- Letter
- Short form
- Long form

Agree and execute

Manage Funding Agreement
- Monitor progress
  - Core
  - Desktop
  - Review
- Make payments
  - In advance
  - On delivery
  - Quarterly

Finalise Funding Agreement
- Review acquittal and reporting
- Review financial sustainability
- Review service delivery
- Identify changes and improvements

Performance Reporting & Monitoring
- Service delivery
- Quality and Safety Standards
- Governance and financial sustainability
- Cost of services
- Acquittal of funds

Program Evaluation
- Program outcomes
- Funding agreement outcomes
- Unintended outcomes identified
- Processes improved

High Level Process Mapping

	Establish Program	Determine Funding Agreement Outcomes	Develop Business Case	Assess Need	State Purpose and Align to Outcome	Confirm Funding is Available	Define Services
DHHS Operational Unit	Based on strategic priorities of Government and policy initiatives and Budget priorities.	State outcome or outcomes to be achieved.	Complete the Business Case Template for an individual grant or Program of grants addressing the following issues:	Assess evidence of need for funding or whether existing services are appropriate.	Determine the purpose and identify result to be achieved.	Confirm that funding for the proposed funding agreement is available within approved budget.	Define and specify the services to be delivered under the proposed funding agreement.
DHHS Office for the Community Sector		OCS has a role in contributing to funding agreement outcomes.			OCS has a role in quality assuring purpose as consistent with outcomes and will support evaluation.	OCS has a role in confirming available funds for proposed funding agreement.	OCS has a role in developing a consistent set of service type descriptions, in conjunction with DHHS Operational Units.
DHHS Corporate Units		Finance and Business Performance has a role in contributing to funding agreement outcomes.				Finance and Business Performance has a role in confirming available budget.	
Community Sector Organisations		CSOs and other stakeholders have a role in contributing to funding agreement outcomes.		CSOs and other stakeholders may have a role in providing evidence to support assessment of need.			CSOs and other stakeholders have a role in contributing to service type descriptions.
		Funding agreement and Program outcomes need to be aligned to broader DHHS outcomes.			The purpose of each funding agreement should be able to be aligned to outcomes at the Program level.		The development of consistent service type descriptions and associated standards (under the Quality and Safety Standards Framework) is recommended.

High Level Process Mapping

DHHS Operational Unit

Determine Method of Agreement
Determine the appropriate method for forming an agreement. "Is the proposed agreement a procurement or grant by funding agreement?"

Determine Method of Approaching CSOs
Determine the appropriate method for approaching CSOs. "Should CSOs be directly targeted or should Expressions of Interest (EoI) be called?"

Conduct Risk Assessment
Complete the Risk Assessment Diagnostic Tool for an individual grant or Program of grants addressing the following issues:

Analyse Service Type and Quality and Safety Standards
Analyse risk issues associated with service type, complexity, and performance, vulnerability of clients, and incident management.

DHHS Office for the Community Sector

Should the Business Case determine a grant by funding agreement, the process and guidance to be followed is set out in the OCS Integrated Financial and Performance Framework.

OCS has a role in assisting with the determination of the method of approaching CSOs and is able to offer a broader assessment of CSOs capacity, level of contestability and benefits to client or clients.

Conduct Risk Assessment
Complete the Risk Assessment Diagnostic Tool for an individual grant or Program of grants addressing the following issues:

Analyse Organisation-wide Governance and Management
Analyse organisation-wide risk issues of governance, management and financial sustainability.

DHHS Corporate Units

Should the Business Case determine a procurement process, the process and guidance to be followed is set out in the DHHS Contract Review Committee and Procurement Handbook.

Community Sector Organisations

CSOs have a role in contributing information necessary to enable DHHS Operational Units and the OCS to Conduct the Risk Assessment.

It is important that a clear distinction is drawn between grant processes and the processes relating to the purchase of goods and services. This is because different Treasurer's Instructions apply to these two processes.

Factors may include:
- purpose and dollar value
- extent of contestability, and potential benefit from an open selection process
- time since previous EoI, and
- benefit to client or clients.

The Risk Assessment Diagnostic Tool will support both the OCS and the DHHS Operational Units to analyse and assess risks in a consistent and structured manner.

The development of consistent service type descriptions and associated standards (under the Quality and Safety Standards Framework) is recommended.

High Level Process Mapping

DHHS Operational Unit

Analyse Service Volume and Capacity
Assess risk issues associated with capacity of organisation to delivery services, significance in region or State.

Value of Funding Agreement
Value of annual and total funding.

Approval to Proceed
Based on the Business Case and Risk Assessment Diagnostic Tool record the approval or not to proceed to Initiating a Funding Agreement.

Approved by DHHS Operational Unit Director
If proposed funding is less than $100,000.

Approved by DHHS Operational Unit Director with the Agreement of the Director of the OCS
If proposed funding is to an existing CSO and for existing service and is more than $100,000 but less than $250,000.

Recommended by DHHS Operational Unit
If proposed funding is to a new CSO or for a new service, or is more than $250,000.

DHHS Office for the Community Sector

Agreement of the Director of the OCS Required
If proposed funding is to an existing CSO and for existing service and is more than $100,000 but less than $250,000.

Quality Assurance Review by OCS
If proposed funding is to a new CSO or for a new service or is more than $250,000.

DHHS Corporate Units

Reporting to Contracts Review Committee (CRC)
If proposed funding is to an existing CSO and for existing service and is more than $100,000 but less than $250,000.

Approval by Contracts Review Committee (CRC)
If proposed funding is to a new CSO or for a new service or is more than $250,000.

Community Sector Organisations

Once the Business Case and Risk Assessment for the individual grant or Program of grants are approved, the DHHS Operational Unit is able to move to initiate a funding agreement.

High Level Process Mapping

DHHS Operational Unit

Initiate Funding Agreement
DHHS Operational Units will select CSOs or call for EoI, evaluate offers received, and agree and execute funding agreements with CSOs.

Invite Offers or Expressions
Approach selected CSOs or call for EoI for services to be delivered by grant under a funding agreement. EoI will require public notices and materials to be developed and distributed.

Evaluate Offers or Expressions
Assess responses against selection criteria established as part of the Business Case and Risk Assessment.

Agree and Execute
Funding agreements negotiated and agreed with selected CSOs.

Service Delivery Funding
Define services (or the capacity to delivery defined services) to quality and safety standards and quantity measures.

Capacity Building and Innovation Funding
Specify and define initiatives including capacity building, skills development, infrastructure and service innovation.

DHHS Office for the Community Sector

OCS has a role in contributing to selecting CSO to be invited or in the development of an EoI.

OCS has a role in providing advice or being part of an evaluation committee.

OCS has a role in providing advice to assist in defining services and quality and safety and quantity standards.

OCS has a role in providing advice to assist in specifying and defining capacity building, skills development, infrastructure and service innovation initiatives.

DHHS Corporate Units

Finance and Business Performance (Contract Legal Support) has a role in contributing to the development of an EOI.

Finance and Business Performance (Contract Legal Support) has a role in providing advice.

Community Sector Organisations

CSOs will be invited to submit offers to deliver services or respond to the request for EOI to delivery services by grant under a funding agreement.

The development of consistent service type descriptions and associated standards (under the Quality and Safety Standards Framework) is recommended.

Capacity building and innovation funding may include funding to ensure a CSO is able to operate sustainably, or to fund costs due to location or clients' needs as well as new service approaches, skilling and infrastructure.

High Level Process Mapping

Community Sector Organisations

The level of risk as assessed in the risk assessment as well as service type should also be considered, along with the dollar value of funding in determining the most appropriate form of agreement.

DHHS Corporate Units

Finance and Business Performance (Contract Legal Support) has a role in providing advice.

Secretary Delegated to Execute Funding Agreement
If annual funding greater than $250,000, but less than $5,000,000.

Minister Delegated to Execute Funding Agreement
If annual funding greater than $5,000,000.

DHHS Office for the Community Sector

OCS has a role in providing advice on the most appropriate form of agreement.

Director OCS Delegated to Execute Funding Agreement
If annual funding less than $250,000.

DHHS Operational Unit

Agree and Execute
Determine most appropriate form of agreement.

Exchange of Letters
Non-personal services less than $20,000 in funding.

Short Form Agreement
Non-personal services less than $100,000 in funding.

Long Form or Standard Agreement
For personal services or funding greater than $100,000.

Agree and Execute
Execute agreement in accordance with Delegations.

DHHS Operational Unit Director Delegated to Execute Funding Agreement
If annual funding less than $100,000.

High Level Process Mapping

DHHS Operational Unit

Manage Funding Agreement
The key processes involved necessary to manage funding agreements involve monitoring performance of CSOs and making payments as required under funding agreements.

Monitor Progress
Monitoring processes are established under the Quality and Safety Standards Framework. There are three forms of monitoring :

Core Monitoring
Six monthly monitoring of self assessment reporting by CSOs.

Service review will require the involvement of the relevant DHHS Operational Units.

DHHS Office for the Community Sector

OCS will assist in monitoring self assessment reports submitted by CSOs.

Desktop Review
Quarterly reviews focusing on high risk issues.

Service Review
More extensive review prompted by issues identified through desktop review or identified risks or on-going concerns.

DHHS Corporate Units

Community Sector Organisations

CSOs will necessarily be involved in the monitoring process, completing self assessment reports as well as providing the information necessary to substantiate the payment of public money under a funding agreement.

Self assessment reporting by CSOs is required to support Core Monitoring.

Desktop reviews will require CSOs to provide information or address questions from OCS.

Service review will require CSOs to provide detailed information, including possibly information in relation to accreditation and management processes.

Monitoring processes are dependent upon the implementation of the OCS Quality and Safety Standards Framework. Should that Framework not be implemented alternative monitoring processes need to be established.

High Level Process Mapping

DHHS Operational Unit

Make Payments
Payments under funding agreements need to be made in accordance with the Delegations, as well as the requirements of the Disability Services Act 1992. There are three payment options:

In Advance
A single payment in advance for individual funding agreements up to $100,000.

On Delivery of Service
For funding agreements greater than $100,000, quarterly payments based on service delivery for the quarter.

Quarterly
For funding agreements greater than $100,000, but where service delivery is not a practical basis, equal quarterly payments.

Expenditure Authorised by DHHS Delegate Group 3
For payments less than $50,000.

Expenditure Authorised by DHHS Operational Unit Directors (Delegate Group 2)
For payments less than $500,000.

DHHS Office for the Community Sector

OCS has a role in communicating changes with CSOs and identifying the impact of changes in payment terms. Transitional arrangements may need to be put in place for CSOs adversely affected.

OCS has a role in monitoring and reporting on DHHS compliance with payment terms.

DHHS Corporate Units

Finance and Business Performance will need to incorporate changes in payment terms into projections of cash requirements with Treasury.

Community Sector Organisations

The requirements of the Disability Services Act 1992 need to be satisfied in all payments under that Act.

High Level Process Mapping

DHHS Operational Unit

DHHS Office for the Community Sector

DHHS Corporate Units

Community Sector Organisations

Expenditure Authorised by DHHS Deputy Secretaries (Delegate Group 1)
For payments less than $1,000,000.

Expenditure Authorised by OCS Manager, Finance and Performance Under the Authorisation by Higher Delegate

Expenditure Authorised by Chief Finance Officer or Secretary
For payments greater than $1,000,000.

Expenditure Authorised by Minister
For payments for disability services, no matter the amount.

The requirements of the Disability Services Act 1992 need to be satisfied in all payments under that Act.

High Level Process Mapping

DHHS Operational Unit

Finalise Funding Agreement
Finalising the funding agreement will need to address annual acquittal, reporting and financial sustainability as well as reviewing service delivery and identifying improvements at the end of the term of the agreement.

Review Acquittal and Reporting
Differing forms of acquittal are recommended under each form of funding agreement. There are three options:

Exchange of Letters
Review acquittal report and Statutory Declaration from CSO.

Short Form Agreement
Review annual acquittal report and Statutory Declaration from CSO, together with audited financial statements of CSO.

Long Form Agreement
Review annual audited acquittal report, together with audited financial statements of CSO.

Review Financial Sustainability
Review financial sustainability annually and at the end of the term of the agreement.

DHHS Office for the Community Sector
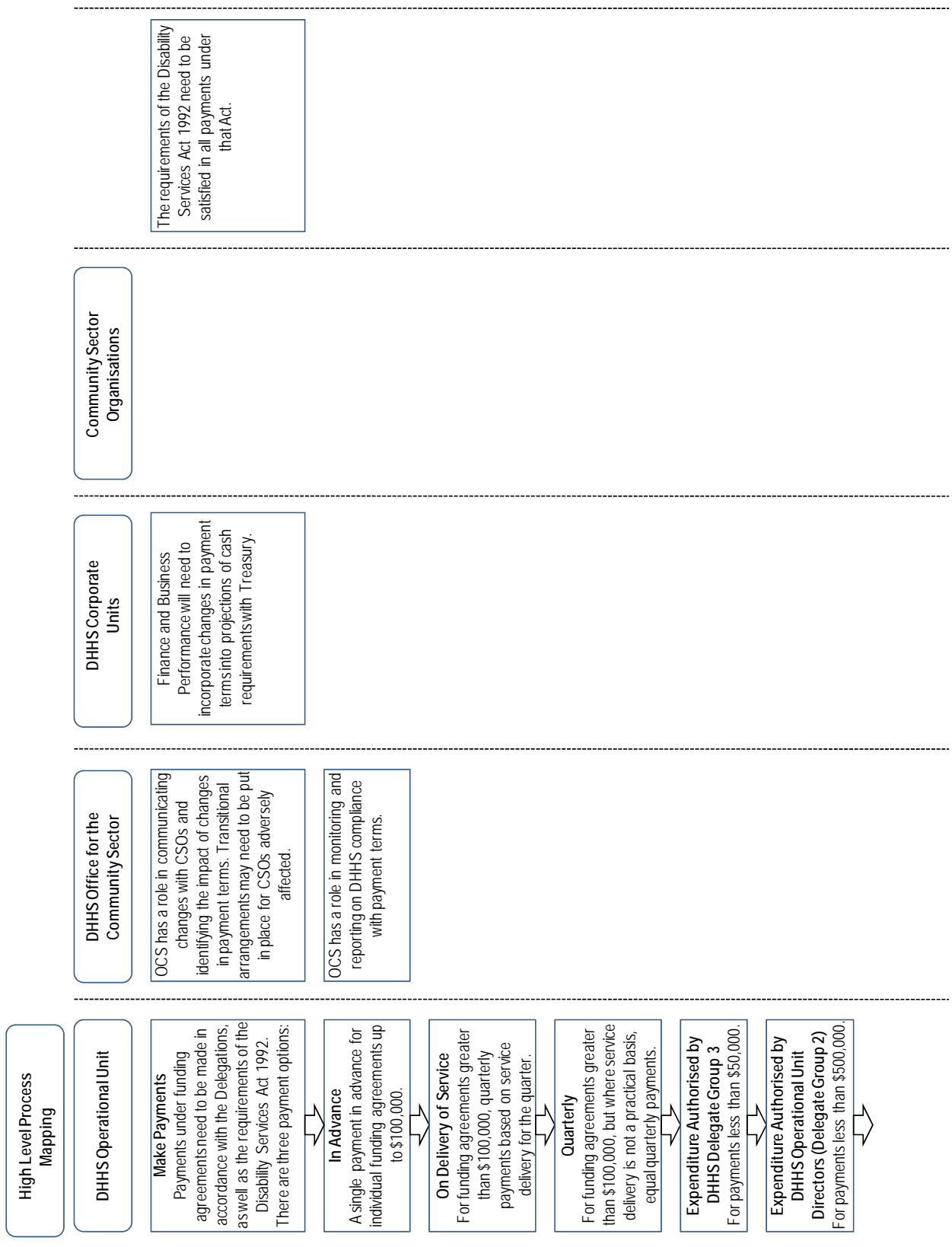
DHHS Corporate Units
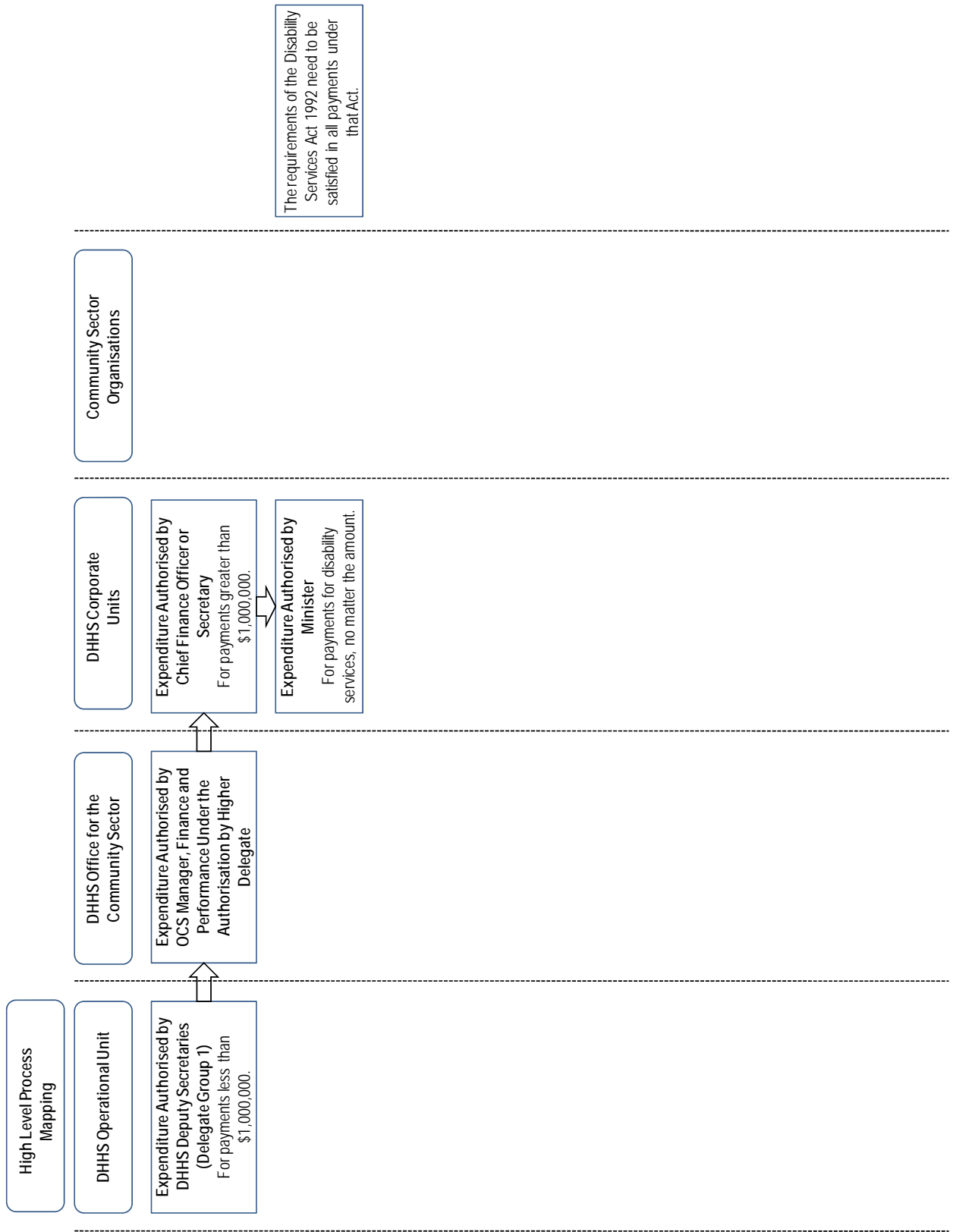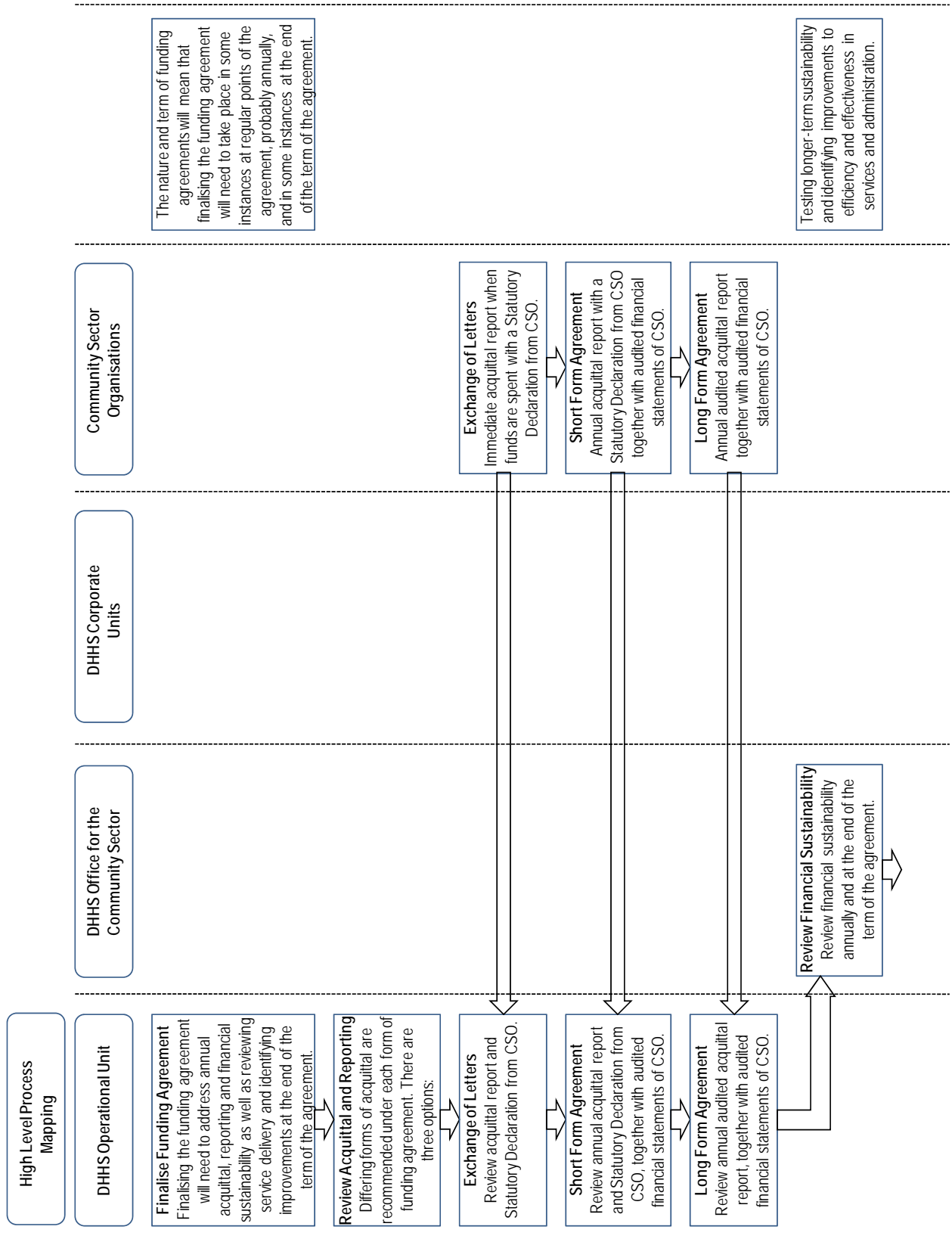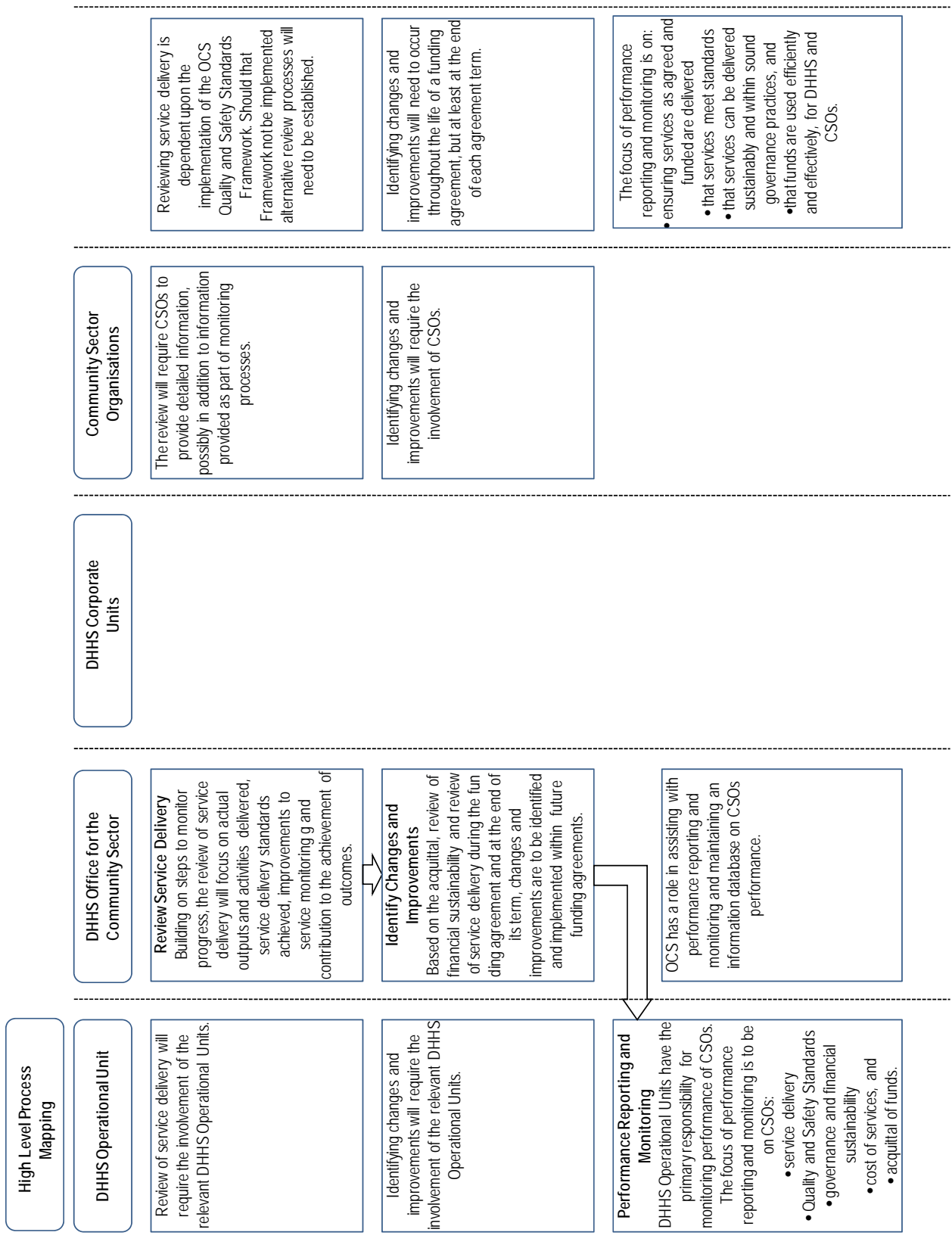
Community Sector Organisations

The nature and term of funding agreements will mean that finalising the funding agreement will need to take place in some instances at regular points of the agreement, probably annually, and in some instances at the end of the term of the agreement.

Exchange of Letters
Immediate acquittal report when funds are spent with a Statutory Declaration from CSO.

Short Form Agreement
Annual acquittal report with a Statutory Declaration from CSO together with audited financial statements of CSO.

Long Form Agreement
Annual audited acquittal report together with audited financial statements of CSO.

Testing longer-term sustainability and identifying improvements to efficiency and effectiveness in services and administration.

High Level Process Mapping

DHHS Operational Unit

Review of service delivery will require the involvement of the relevant DHHS Operational Units.

Identifying changes and improvements will require the involvement of the relevant DHHS Operational Units.

Performance Reporting and Monitoring
DHHS Operational Units have the primary responsibility for monitoring performance of CSOs. The focus of performance reporting and monitoring is to be on CSOs:
- service delivery
- Quality and Safety Standards
- governance and financial sustainability
- cost of services, and
- acquittal of funds.

DHHS Office for the Community Sector

Review Service Delivery
Building on steps to monitor progress, the review of service delivery will focus on actual outputs and activities delivered, service delivery standards achieved, improvements to service monitoring g and contribution to the achievement of outcomes.

Identify Changes and Improvements
Based on the acquittal, review of financial sustainability and review of service delivery during the fun ding agreement and at the end of its term, changes and improvements are to be identified and implemented within future funding agreements.

OCS has a role in assisting with performance reporting and monitoring and maintaining an information database on CSOs performance.

DHHS Corporate Units

Community Sector Organisations

The review will require CSOs to provide detailed information, possibly in addition to information provided as part of monitoring processes.

Identifying changes and improvements will require the involvement of CSOs.

Reviewing service delivery is dependent upon the implementation of the OCS Quality and Safety Standards Framework. Should that Framework not be implemented alternative review processes will need to be established.

Identifying changes and improvements will need to occur throughout the life of a funding agreement, but at least at the end of each agreement term.

The focus of performance reporting and monitoring is on:
- ensuring services as agreed and funded are delivered
- that services meet standards
- that services can be delivered sustainably and within sound governance practices, and
- that funds are used efficiently and effectively, for DHHS and CSOs.

OFFICE FOR THE COMMUNITY SECTOR

PERFORMANCE AND FINANCE FRAMEWORK

PROJECT REFERENCE COMMITTEE

These Terms of Reference outline the Office for the Community Sector (OCS) Performance and Finance Framework (PFF) Reference Committee (PFFRC) including the Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

Objective

The objective of the Committee is to provide expert advice and assistance to the OCS, Deputy Secretary Human Services and Secretary (and the Agency Executive Committee) on the planning, development, implementation and evaluation associated with the PFF Project.

Composition and tenure

The Committee will consist of seven members appointed by the Deputy Secretary, Human Services. Appointed members may provide delegates in their absence.

The Deputy Secretary will be the Chair of the Committee and the Director OCS the Deputy Chair.

In addition to members of the Committee the Chair of the PFFRC may invite representation from Government Departments, Community Sector Organisations or individuals who can contribute expertise or advice from time to time as required by the Committee.

The members, taken collectively, will have a broad range of skills and experience relevant to the Project.

Membership will include;

- Chair: Deputy Secretary Human Services (Alison Jacob)

- Deputy Chair: Director, Office for the Community Sector (Assoc Prof Des Graham)

- Member: Director, DHHS Operational Unit (Mark Byrne)

- Member: Chief Finance Officer (Wayne De Gruchy)

- ▶ Member: Community sector representative - Noel Mundy

- ▶ Member: Community sector representative - John Paton

- ▶ Member: Community sector representative - John Hooper

- ▶ Observer/Community sector proxy: Heather MaCallum

Also in attendance:

- ▶ OCS Secretariat: Karen Payne (minutes)

- ▶ PFF Project Manager: Robert Gavin

- ▶ Manager, Strategic Development OCS: Robert Gavin

Roles and responsibilities

- ▶ The Committee has no executive powers;

- ▶ The Committee is directly responsible and accountable to the Deputy Secretary for the exercise of its responsibilities;

- ▶ The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the Secretary from time to time;

The Committee's responsibilities are:

- ▶ to provide high level advice and expertise related to the planning, development, implementation and evaluation of the Performance and Finance Framework project;

- ▶ to ensure that the project has in place a current and comprehensive management framework, and associated procedures for effective project management including risk management plans;

- ▶ act as a forum for communication between the project key stakeholders both internal and external to DHHS;

- ▶ review and approve the project work plan with additions to the plan approved by the Committee Chair;

- ▶ assist in the identification of resources to carry out the project and its implementation;

- ▶ assist in the identification, review and development of contemporary policies, procedures, templates, resource allocation formulas and delegations associated with the PFF;

- ▶ assist in the identification of any required changes to the design or implementation of DHHS internal controls;

- ▶ provide advice on the development of change management processes associated with the implementation of the PFF;

▶ provide advice in the development of education and training associated with the implementation of project elements;

▶ ensure due consideration has been given to any legal and compliance risks as per DHHS's risk assessment and management arrangements;

▶ provide advice to the Secretary (and DHHS AEC) on significant issues identified during project management including any actions taken;

▶ monitor the projects timelines and ensure timely reporting of project activity to relevant stakeholders; and

▶ assist in accessing appropriate internal and external stakeholders.

Responsibilities of members

Members of the Committee are expected to:

▶ contribute the time needed to study and understand the project;

▶ apply good analytical skills, objectivity and good judgment; and

▶ provide advice and express their opinions in an open and professional manner and ask questions that are fundamental to the success of the project.

Reporting

The OCS will provide a written report at all committee meetings. The report will include;

▶ a summary of progress against project activities and timelines;

▶ details of any significant emerging risks which may impact on the project; and

▶ the Chair of the Committee may, at any time, report to the DHHS Secretary any matter deemed of sufficient importance to do so.

Administrative arrangements

Meetings

▶ The Committee will meet at least monthly. A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee at its first meeting.

Attendance at meetings and quorums

▶ A quorum will consist of four Committee members or their delegate.

▶ The Chair of the Committee may also request other employees, or individuals attend Committee meetings or participate for certain agenda items as required from time to time.

Secretariat

▶ The OCS will provide secretariat support to the Committee. The Secretariat will ensure the

agenda for each meeting and supporting papers are circulated, after approval from the Chair, at least one week before the meeting, and ensure the minutes of the meetings are prepared and maintained. Minutes must be approved by the Chair.

Conflicts of interest

▶ Committee members will provide written declarations to the Chair stating they do not have any conflicts of interest that would preclude them from being members of the Committee.

▶ Committee members must declare any conflicts of interest at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

▶ Where members or observers at Committee meetings are deemed to have a real, or perceived, conflict of interest it may be appropriate that they are excused from Committee deliberations on the issue where a conflict of interest exists.

Induction

▶ New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

Approved/Not Approved

Deputy Secretary Human Services; and

Chair,

Office for the Community Sector, Performance and Finance Framework Project Reference Committee.

SUMMARY OF CONSULTATIONS WITHIN DHHS

Representatives from the following operational units and other areas of DHHS, in the course of the development of this Report.

Operational Units:

Alcohol and Drug Service

Children and Family Services

Disability Services

Home and Community Care

Housing Tasmania

Mental Health

Population Health

Primary Health

SAAP

Other areas:

Office for the Community Sector Finance and Performance Unit

Support for Contract Review Committee Unit

Reform Unit

Health Policy Unit

Internal Audit Unit

DHHS Executive

Outcomes from the first round of consultations within DHHS

During the week commencing 6 October 2008, representatives from DHHS Operational Units, Finance Unit, Support for Contract Review Committee Unit and the OCS.

Key issues raised in discussions included:

- The outcomes for the client are paramount. The Framework provides a means of better linking actual outcomes being achieved on the ground with Unit, Department and Government objectives.
- Many operational areas within DHHS will undergo significant changes to the way services are to be delivered eg partnering with the Community Sector, the Gateway model and in the next few years. These changes will also affect the Community Sector. In addition there will be changes to the funding arrangements and performance requirements under the Commonwealth- State Health Care Agreement.
- One size does not fit all. A range of disparate services are delivered by organizations, of various sizes funded to various levels, across the State. These differences will need to be able to be accommodated within the overarching framework.
- There needs to be sufficient capacity, both human and infrastructure to properly implement the new Framework within DHHS and within CSOs. This may require an investment in education and training within both DHHS and the sector to make a successful transition to the new framework.
- There will be a mixed response among the CSOs to the proposed changes. It will take time to adjust. Need to overcome historic processes of selection. Transitional arrangements may be needed.
- Many existing service /funding agreements will require significant revision to meet the Framework. Many have been largely unchanged for a number of years and do not contain proper output or performance information.
- The current agreement process is poorly understood, very complicated and time consuming. Rationalisation and simplification of the number of agreements and the process will be welcomed
- The Framework should show the processes to be adopted where services are to be funded and where the services are to be purchased under a competitive tendering approach.
- Processes and decision making processes under the Framework should be transparent.
- The roles and responsibilities of the CSO delivering services, the Operational Unit and the OCS need to be defined in the Framework.

Process Issues

- Unit pricing of services
- Identification and measurement of activities, outputs and outcomes
- Identification of performance measures and alignment to Commonwealth requirements

SUMMARY OF CONSULTATIONS WITH THE COMMUNITY SECTOR

Representatives of the following CSOs, peak bodies, or peak like bodies attended consultative forums or were involved in the consultation process during the course of the development of this Report.

Ability Tasmania Group Inc.
Able Australia Services
Advocacy Tasmania Inc.
Anglicare Tasmania Inc.
Arthritis Tasmania
Aspire - A Pathway to Mental Health Inc.
Association for Children with a Disability
Asthma Foundation of Tasmania Inc.
Australian Huntington's Disease Association Tas Inc.
Bethlehem House Homeless Men's Assistance Centre Inc.
Burnie City Council
Calvary Health Care Tasmania Inc.
Cancer Council of Tasmania Inc.
Caroline House Inc.
Centacare Tasmania
Child Health Association Inc.
Clarence CVS
Clarendon Vale Neighbourhood House
Coastal Residential Service
Colony 47 Inc.
Community Based Support (South) Inc.
Community Connections Inc.
Community Transport
Cosmos Inc.
Division of General Practice Northern Tasmania Inc.
Drug Education Network Inc.
Drugs and Alcohol North West
Epilepsy Association of Tasmania Inc.
Eskleigh Foundation Inc.
Esset Group Pty Ltd
Family Based Care Association North Inc.
Family Based Care Association North West Inc.
Family Planning Tasmania
Foster Carers Association of Tasmania Inc
Fusion
Geeveston Community Centre
Glee Club Inc.
Glenhaven Family Care Inc.
Glenview Home
Headway North West Inc.
Headway Support Services Tasmania Inc.
Helios Inc.
Hobart City Mission Inc.
Hobart District Nursing service Inc
Hobart Womens Health Centre Inc.

Hospice Care Association of Southern Tasmania Inc.
Huon Eldercare Inc.
Huon Valley Council
Independent Health Care Service Pty Ltd
Independent Living Centre (Tas) Inc.
Italian Australian Pensioners Assoc of Tas Inc Day Centre
Jireh
Karinya Young Womyns Service Inc.
Langford Support Services
Launceston City Mission Inc.
Lifeline Hobart Inc.
Mental Health Council of Tasmania Inc.
Mersey Community Care Association Inc.
Mission Australia
Montagu Community Living Inc.
Moondani Inc.
National Disability Services Limited
National Stroke Foundation
Nexus Inc.
NILS Network
Northern Residential Support Group Inc
Oak Enterprises
Optia Inc.
Polish Association in Hobart Inc.
Quit Tasmania
Richmond Fellowship Tasmania Inc.
Rosebery Neighbourhood Centre Inc.
Royal Guide Dogs for the Blind Association of Tasmania
Shelter Tas Inc
South Eastern Nursing & Home Care Association Inc.
Speak Out Association of Tasmania Inc.
St Giles Society Inc.
St Helens Neighbourhood House
St Michaels
Star Tasmania Inc.
Tandara Lodge Community Care Inc.
Tasmanian Aquired Brain Injury Service
Tasmanian Association of Community Houses
Tasmanian Council of Social Service Inc.
Tasmanian Council on Aids, Hepatitis & Related Diseases Inc.
Tasmanian Deaf Society Inc.
The Carer's association of Tasmania Inc
The Division of General Practice (Tasmania-North West Region) Inc.
The Division of General Practice (Tasmania-Southern Region) Inc.
The Link Youth Health Service Inc.
The Multiple Sclerosis Society of Tasmania Inc.
The Parkside Foundation Pty Ltd
Tranquility Base
Tresca
VQME
West Coast Council

Westwind Community Centre
Womens Karadi
Working It Out
Wyndarra Centre Inc.
Youth Accommodation Services Tas
Youth Futures Inc.
Youth Network of Tas
Zeehan Neighbourhood Centre Inc.

Outcomes from the first round of Community Sector Forums

Community Sector Forums were held in Burnie on Tuesday 4 November 2008 (2 sessions), Launceston on Thursday 6 November 2008 (1 session) and the Hobart on Wednesday 12 November 2008 (2 sessions).

The following represents a summary of the views presented by CSOs at those Forums grouped under the five Framework Principles.

Principle 1: Results Focused

Common views
Current funding agreement with DHHS are not outcome based. Usually there are only a couple of paragraphs to describe the services to be provided and the activity/ output measures. CSOs would welcome a clearer description of the results/outcomes that DHHS expects. It would fit with other funding organisation requirements.

Defining outcome indicators and performance measures will not be easy. It should be done jointly by DHHs and the CSO when negotiating the funding agreement. The measures need to be both qualitative and quantitative and the CSO may need time to implement.

The Government needs to be clear about its outcomes. From the CSO perspective, outcomes should focus on the individual.

DHHs currently focuses on activity measures. For some CSOs there will be a cost in moving to output measures associated, eg system changes. There should be a timeframe for transition. Other CSOs already have a well-developed strategic planning, budgeting and outputs model.

The evaluation of programs should be done jointly by DHHS, CSOs and clients using a timeframe that allows for all to make a meaningful contribution.

Other comments
The DHHS evaluation process is hit and miss. Some evaluations are very intensive eg based upon MDS and HACC quarterly reports. It would be better to adopt a risk management approach like the ATO.

There is unmet demand, services are not at an optimum. Funding should go where services are needed across the State.

This is all about cost cutting while the government wastes money.

Government priorities change and differ to those of the community sector.

Whole of Government priorities need to be considered.

Principle 2: Mutual Regard

Common views
The roles and responsibilities of the CSO, the OCS and the operational unit need to be clarified and stated in the funding agreement.

DHHS must deliver on its obligations, such as making payments on time. Delays in funding cause unacceptable stress for staff and the CSO itself.

DHHS should negotiate the funding agreement not deliver a "take it or leave it" ultimatum.

DHHS and CSOs should talk more. Funding agreements are sometimes changed without notice.

Does DHHS have the resources to meet the announced timeframes for introducing replacement funding agreements. It is already difficult to find staff to talk to. There are no longer staff in the field available to talk one on one.

DHHS should be prepared to assist CSOs in meeting the new requirements of the department through developing systems, offering training and developing generic policies and procedures for smaller CSOs.

Other comments
DHHS initiates a lot of changes but often don't implement them well because they are not sufficiently staffed and prepared eg Early Support Program. Problems also with Bridging the Gap.

DHHS should provide a separate stream of funding to meet the full cost of developing and implementing reforms that are DHHS requirements. There is significant time lost in consultation, travel, lost service delivery. Small CSOs can't cope. Larger CSOs are better placed because they have admin staff.

DHHS is not clear itself on what the reforms will achieve. Consultation should be genuine and its cost recognized. CSO staff and clients are experiencing the stress of reform overload leading to concern about the future.

There should be recognition of the impacts of the difference in wage rates between the government and community sectors.

CSOs need to be more honest with DHHS about their service demand and strategic directions.

There is a need for cultural change within both DHHS and CSOs.

Principle 3: Transparency, Accountability and Sustainability

Common views
Increased transparency of the funding decision making process is a good thing.

There needs to be a cost /benefit analysis of information collected, KPIs and other measures from both a CSO and DHHS perspective. The minimum of information should be collected and it should meld with other information requirements eg MDS. There should be consistency in the information collected across all units of DHHS.

The acquittal process should be reviewed and a risk management approach adopted.

Separate audits of all acquittal statements is very expensive and is not required by the Commonwealth.

DHHS should advise CSOs what the information collected is to be used for. There should be meaningful financial analysis of the data provided. The performance-reporting and re-alignment of funding should not introduce another layer of reporting.

DHHS should develop tools to enable CSOs to meet minimum costing, acquittal and performance reporting requirements. The information could be used by a CSO to benchmark its performance within the sector.

Funding sources should be rationalised. There are multiple funding buckets within DHHS. This makes accounting and reporting requirements unnecessarily complicated. CSOs continually have to shift clients between funding sources to continue a service. Funding and actual cost don't necessarily match. There can be overspends and underspends between programs where clients meet criteria for separate programs, but funding cannot be moved.

Multiple agreements should be combined and the arrangements for small grants streamlined.

Principle 4: Value for Money

Common views
Funding should be based on total cost, based on actual demand, not an historic basis.

The funding agreement should provide the flexibility to recognize increases and decreases in demand under the new costing model. There should be a mechanism to vary the agreement. Costs change over time. Increasing costs mean diminishing quality of services and or quantity of the service provided. The framework should acknowledge and agree the basis of funding.

Indexation is not sufficient to meet cost increases eg wages and fuel. Is CPI the right measure?

The wages differential between the sectors needs to be dealt with. There is now a $15-20 k difference in the wages paid by DHHS and CSOs. There is a need to attract good staff to the community sector, which is facing a big demand for services provided.

The community sector needs longer term funding. A one year contract is not acceptable. Rolling or three year term budgets are needed.

The activity being funded must be defined before unit costing can be introduced. There will need to be benchmarking exercises to determine total cost.

Unit costing – one size does not fit all

Jobsearch used a similar unit cost model. It is now being modified to recognize the costs of isolation and scale eg a loading is being added to provide a service on the West coast.

Determining the unit eg a trip (current) or per km, leads to cross subsidies.

Economies of size and dispersal across the State.

Costs change over the life of the agreement eg fuel

Providing services, outcomes in remote locations

More onerous for CSOs, splitting costs over range of activities/services, artificial split of overheads. Cost of administration. Do CSOs and DHHS have the skills and knowledge to apply? Outsource? More cost?

Same service can be more costly between different client groups eg disability and HACC.

DHHS wants a single unit cost. Will DHHS fund fixed costs?

What are we trying to cost?

Cherry-picking by CSOs of most profitable clients, services.

Other views
The funding agreement should provide the flexibility to recognize both increases and decreases in demand under the new costing model. There should be a mechanism to vary the agreement and to reallocate resources within a CSO.

The framework should acknowledge and agree the basis of funding. There could be separate funding streams for service delivery and capacity building. Potentially there should also be separate streams for administrative costs, innovation, research and development, costs of introducing the reforms required by DHHS, capital purchases.

CSOs repay surpluses, but CSOs expected to wear deficits.

Unit costing is already here. It is being rolled out in Disability Services.

There is always pressure to do more with the same funding. Changes proposed within DHHS will mean CSOs delivering greater services. Will there be additional funding? No detriment, a CSO should not be worse off under the new arrangements. Additional funding should be provided to assist the transition if required.

Principle 5: Continual Improvement

This principle is generally supported. However, concern was expressed that improvements will be used to drive down funding.

OTHER

There was discussion of the other reforms being progressed by DHHS and their potential impact on the Framework.