

Report 389

- **Australian Defence Force Reserves**
- **Assessment of New Claims for the Age Pension by Centrelink**
- **Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension**
- **Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust**

**Review of Auditor-General's Reports
2000–2001
Fourth Quarter**

Joint Committee of Public Accounts and Audit

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Foreword

Report 389 is the outcome of the review by the Joint Committee of Public Accounts and Audit (JCPAA) of the Auditor-General's audit reports tabled in the fourth quarter of 2000–2001. Of the twenty-two audit reports reviewed, the Committee selected four for further examination.

Audit Report No. 33, *Australian Defence Force Reserves*; Audit Report No. 34, *Assessment of New Claims for the Age Pension by Centrelink*; Audit Report No. 35, *Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension*; and Audit Report No. 43, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust* were examined at public hearings in Canberra on Tuesday, 30 April 2002.

In reviewing *Audit Report No 33*, the Committee focused on Reserve roles and tasks; resources and costs; and attraction and retention of personnel.

The Committee agrees with the ANAO that Defence should annually establish and publish the full costs of each Reserve Service and the capabilities provided, in order to provide full transparency of the costs of maintaining Reserve forces. The Committee recommends that Defence give urgent attention to developing its financial and management systems to enable it to provide full costing of the Reserve forces.

The Committee notes that the process of defining the roles and tasks for Reserve units is progressing and strongly encourages the early completion of the single entitlement document (SED) reviews. Until the role and resource needs of the Reserve have been clarified, there is no certainty that current recruitment, training and provisioning is appropriate for the future structure of the Reserve forces.

Audit Report No. 33 made the point that the broad structure of the Army Reserve has remained largely unchanged over several decades. The changed strategic role for the Reserves towards contemporary military operations, as outlined in the *Defence 2000* White Paper, raises the question of the appropriateness of current Army Reserve structures to meet changing roles and tasks.

The Committee considers that there are compelling reasons to rationalise the Army Reserve force structure to ensure that it is based on strategic guidance and on the outcomes of the Army's study of its Reserve roles and tasks. There should be a strong link between the military capability required and the force structure that is developed.

In the Army Reserve, discharges have exceeded enlistments almost every year since 1988-89. In the past few years, the gap between separations and recruitment has increased. Defence is making efforts to develop new recruitment initiatives. While the proposed Defence personnel regulations should increase personnel numbers in the inactive Reserve, the Committee strongly encourages the ADF to continue its work on identification and provision of incentives which could lead to an increase in the numbers of personnel available for active Reserve service.

The Committee also considers that it would be useful for some formal research to be done to identify reasons for separation from the Reserve forces.

Audit Report No. 34 and *Audit Report No. 35* dealt with Centrelink's Assessment of New Claims for the Age Pension from different perspectives. The two audits were undertaken by ANAO in parallel. In *Audit Report No. 34*, ANAO looked at Centrelink's preventive quality controls to ensure accuracy and correct decisions at the new claims stage. In *Audit Report No. 35*, ANAO examined those aspects of the FaCS–Centrelink business arrangements designed to assist the Department of Family and Community Services (FaCS) in its oversight of the assessment of new claims for the Age Pension by Centrelink. For 1999–2000, the agreed performance standard between the two agencies was 95% 'correctly assessed' while for 2000–2001, the standard was 95% 'completely accurate'.

The Committee selected these two audit reports for review because it was concerned at the discrepancies between the error rates found by the audit team and Centrelink's reporting of its accuracy in its *Annual Reports*. Centrelink had reported an accuracy rate of 98% for 1999–2000. ANAO stated that its audit findings showed that in 1999–2000, 52.1% (+/-6.8pp) of new Age Pension assessments contained at least one actionable error while 95.6% (+/-3.5pp) contained at least one administrative error. On the basis of

the audit, ANAO indicated that the accuracy standard of 95% for 2000–2001 was unattainable.

While the Committee accepts that some Age Pension claims are complex, the Committee is nevertheless disturbed by ANAO's findings. Inaccuracies result in incorrect payments which translates into hardship for Age Pension clients. Committee members commented at the public hearing on the stress experienced by their constituents when faced with Centrelink over or underpayments.

The Committee acknowledges that faced with the audit findings, Centrelink has made improvements such as appointing an extra 130 complex assessment officers, who are specially trained, and checking all claims processed by inexperienced staff. As a result of this increased scrutiny, Centrelink officers found and corrected more initial errors and the reported accuracy rate was reduced to the mid-80% in early 2002, below the 95% agreed accuracy standard. Assessment of new claims has been further assisted by the rules simplification ordered by the Minister for Family and Community Services in 2002.

The Committee looks forward to the independent validation strategy being developed by the Department of Family and Community Services to assess Centrelink's performance. Improvements in the department's monitoring and evaluation of Centrelink should mean greater accuracy in new claim assessments thereby resulting in accurate payments from the start.

Audit Report No. 43 concluded that the performance information used to support the administration of Commonwealth financial assistance under the Natural Heritage Trust (NHT) had strong design features but significant management and reporting challenges. A key issue was the absence of a finalised core set of performance indicators. The report also noted that the absence of baseline data on environmental condition in much of Australia had been a major constraint on measuring and reporting on changes and trends. The audit foreshadowed the potential value of the findings of the national land and water resources audit (NLWRA) for future natural resource management and environment programs.

The Natural Heritage Ministerial Board has agreed to the continuation of the NLWRA until June 2007 and the Committee notes its potential to provide better access to quality data for NHT mark 2 (NHT2). The Committee considers that improved needs assessment will enable better judgements to be made about project priorities for NHT2.

The ANAO noted in its report of June 2001 that there had been little progress in relation to finalising the design of an overall performance

information framework, and consequently, a limited capacity to measure results in concrete terms.

The Committee considers that there is still little ability to assess the impact the NHT has had overall and the progress made towards program goals such as the conservation, repair and sustainable use of Australia's natural environment.

The Committee notes that since the NHT Mid-Term Review, agencies are reported to have given greater attention to the strategic focus of the NHT. The Committee is aware that a set of intermediate indicators has been agreed for the evaluation of NHT1. The Committee has taken evidence that closer attention has been paid to issues of baseline setting, monitoring and evaluation, and reporting in the planning and development for the implementation of NHT2 and the National Action Plan for Salinity and Water Quality.

While it appears to the Committee that improvements may finally be underway which could impact positively on future NHT achievements, the inability to adequately measure performance and report on achievements to date was not unforeseen.

The Committee can only reiterate its opinion of 1998,¹ namely, that there must be concern when large amounts of public funds are committed and programs implemented before problems are adequately identified and performance information systems are in place.

Bob Charles MP
Chairman

¹ JCPAA, Report 359, Review of Auditor-General's Reports 1996-97, Fourth Quarter, March 1998, pp. 35-6.

Membership of the Committee

39th Parliament

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Deputy Chair Mr David Cox MP

Members	Senator Helen Coonan	Mr Kevin Andrews MP
	Senator the Hon Rosemary Crowley (until 28/06/01)	Mr Malcolm Brough MP (until 7/3/00)
	Senator the Hon John Faulkner (until 12/10/00)	Mr Petro Georgiou MP
	Senator the Hon Brian Gibson AM	Ms Julia Gillard MP
	Senator John Hogg	Mr Alan Griffin MP (until 9/8/99)
	Senator Andrew Murray	Mr Peter Lindsay MP (from 7/3/00)
	Senator the Hon Nick Sherry (from 28/06/01)	Ms Tanya Plibersek MP (until 10/4/00)
	Senator John Watson	The Hon Alex Somlyay MP
		Mr Stuart St Clair MP
		Mr Lindsay Tanner MP (from 9/8/99)
		Mr Kelvin Thomson MP (from 10/4/00)

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	Senator the Hon Rosemary Crowley	Mr John Cobb MP
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Ms Maria Pappas



Duties of the Committee

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

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

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General under subsections 49(1) and 55(2) of the *Financial Management and Accountability Act 1997*;
- (b) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- (c) to examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament;
- (d) to report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament;
- (e) to report to both Houses of the Parliament any alteration that the Committee thinks desirable in:
 - (i) the form of the public accounts or in the method of keeping them; or
 - (ii) the mode of receipt, control, issue or payment of public moneys;
- (f) to inquire into any question connected with the public accounts which is referred to the Committee by either House of the Parliament, and to report to that House on that question;

- (g) to consider:
 - (i) the operations of the Audit Office;
 - (ii) the resources of the Audit Office, including funding, staff and information technology;
 - (iii) reports of the Independent Auditor on operations of the Audit Office;
- (h) to report to both Houses of the Parliament on any matter arising out of the Committee's consideration of the matters listed in paragraph (g), or on any other matter relating to the Auditor-General's functions and powers, that the Committee considers should be drawn to the attention of the Parliament;
- (i) to report to both Houses of the Parliament on the performance of the Audit Office at any time;
- (j) to consider draft estimates for the Audit Office submitted under section 53 of the *Auditor-General Act 1997*;
- (k) to consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*;
- (l) to make recommendations to both Houses of Parliament, and to the Minister who administers the *Auditor-General Act 1997*, on draft estimates referred to in paragraph (j);
- (m) to determine the audit priorities of the Parliament and to advise the Auditor-General of those priorities;
- (n) to determine the audit priorities of the Parliament for audits of the Audit Office and to advise the Independent Auditor of those priorities; and
- (o) any other duties given to the Committee by this Act, by any other law or by Joint Standing Orders approved by both Houses of the Parliament.



List of abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ADF	Australian Defence Force
AFFA	The Department of Agriculture, Fisheries and Forestry— Australia
AIB 2003	Army-in-Being in 2003
ANAO	Australian National Audit Office
BPA s	Business Partnership Agreements
CAO s	Complex Assessment Officers
CSO s	Customer Service Officers
DAC	Defence Audit Committee
DFRO	Defence Force Recruiting Organisation
DoFA	Department of Finance and Administration
FaCS	Department of Family and Community Services
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
NHT	National Heritage Trust

NHT1	Grant period from 1996-97 to 2001-02
NHT2	Grant period from 2002-03 to 2006-07
NLWRA	National Land and Water Resources Audit
PAC	Procedure and Accuracy Check
QOL	Quality On-Line
RCS	Retirement Community Segment Team
SED	Single Entitlement Documents

List of recommendations

Audit Report No.33, *Australian Defence Force Reserves*, Department of Defence

Recommendation 1

- 2.24 **The Committee recommends that Defence:**
- (a) review its Army Reserve structure in order to develop a more efficient and effective structure which complements, rather than unnecessarily duplicates, capabilities that exist in the full time component; and
 - (b) provide to the Committee formal six-monthly progress reports, separately from the Executive Minute process, on the progress of the review.

Recommendation 2

- 2.38 **The Committee recommends that Defence give urgent attention to developing its financial and management systems to enable it to provide full costing of the Reserve forces.**

Recommendation 3

- 2.61 **The Committee recommends that Defence commission an external study of the reasons for separation from the Reserve, and commission further studies on this issue from time to time.**

Audit Report No.34, Assessment of New Claims for the Age Pension by Centrelink

Recommendation 4

- 3.61 **The Committee recommends that the Department of Family and Community Services (i) finalise as quickly as possible, its strategy to enable independent validation of Centrelink's performance, taking the Auditor-General's recommendations into account; and (ii) provide a copy of this agreed strategy to the Committee.**

Introduction

- 1.1 One of the statutory duties of the Joint Committee on Public Accounts and Audit (JCPAA) is to examine all reports of the Auditor-General. In doing this, the JCPAA considers the significance of the program or issues raised in the audit reports; the significance of the findings; the arguments advanced by the audited agencies; and the public interest of the report. The Committee then reports the results of its deliberations to both Houses of Parliament.
- 1.2 Upon consideration of the twenty-two audit reports presented to the Parliament by the Auditor-General during the fourth quarter of 2000–2001, the JCPAA selected four reports for further scrutiny at public hearings. The public hearings were conducted in Canberra on Tuesday, 30 April 2002.
- 1.3 The reports selected were:
 - Audit Report No. 33, 2000-2001, *Australian Defence Force Reserves* Department of Defence; **(Chapter 2)**
 - Audit Report No. 34, 2000-2001, *Assessment of New Claims for the Age Pension by Centrelink*, Centrelink; **(Chapter 3)**
 - Audit Report No. 35, 2000-2001, *Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension*, Department of Family and Community Services; **(Chapter 3)** and

- Audit Report No.43, 2000-2001, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, Department of Agriculture, Fisheries and Forestry, and Department of the Environment and Heritage. **(Chapter 4)**

The Report

- 1.4 This report of the JCPAA's examination draws attention to the main issues raised at the public hearings. Where appropriate, the Committee has commented on unresolved or contentious issues and made recommendations.
- 1.5 A copy of this report is available on the JCPAA website at <http://www.aph.gov.au/house/committee/jpaa/reports.htm>

Audit Report No. 33, 2000–2001

Australian Defence Force Reserves

Department of Defence

Introduction

Background

- 2.1 The Reserve military forces represent over a third of the total personnel strength of the Australian Defence Force (ADF) and are a fundamental component of Australia's military capability. Reservists provide a latent capability that can be used to enhance high readiness permanent forces.¹
- 2.2 The Defence White Paper *Defence 2000 - Our Future Defence Force* stated that 'the strategic role for the Reserves has now changed from mobilisation to meet remote threats to that of supporting and sustaining the types of contemporary military operations in which the ADF may be increasingly engaged'.²

1 ANAO, Audit Report No. 33, *Australian Defence Force Reserves*, 2000–2001, Commonwealth of Australia, p. 29.

2 Department of Defence, *Defence 2000—Our Future Defence Force*, Commonwealth of Australia, December 2000, p.69.

The audit

- 2.3 In view of the Government's decision to enhance the Reserves to undertake a wider range of activities, the Australian National Audit Office (ANAO) considered it appropriate to conduct a performance audit of ADF Reserves.³
- 2.4 The objective of the audit was to identify possible areas for improvement in the ADF's management of its Reserve forces. The audit covered all three Services and focused on major aspects of the Reserves including roles and tasks, force structure, capability, training, individual readiness, equipment, facilities, recruitment, retention, conditions of service and administration. Due to its size and cost, the Army Reserve was a major focus of the audit activity.⁴

Audit findings

- 2.5 Inter alia, Audit Report No 33, 2000-2001, *Australian Defence Force Reserves* found that:
- in recent years ADF Reserves recruited had fallen well below recruiting targets;
 - the Army Reserve needed to develop suitable roles and tasks to reflect current strategic requirements, and which were not constrained by existing Army Reserve capabilities and force structure;
 - resources allocated to the Army Reserve from the Defence budget had been insufficient to achieve the capability required by Army.
- 2.6 The ANAO made 13 recommendations directed towards improving the ADF's management of its Reserve forces. Defence, agreed, or agreed in principle, to all recommendations.

The JCPAA's review

- 2.7 Defence told the Committee that it welcomed the ANAO audit report into the ADF Reserves and that the report's

3 ANAO, Audit Report No. 33, 2000–2001, p. 38.

4 ANAO, Audit Report No. 33, 2000–2001, p. 38.

recommendations were broadly consistent with a range of ADF Reserves enhancement initiatives being implemented across the ADF. Defence noted that management changes and capability enhancement of the Reserve was 'a work in progress'.⁵

- 2.8 The Auditor-General's view was that the audit had been very comprehensive and good cooperation had been received from Defence.⁶
- 2.9 At the public hearing, the Joint Committee of Public Accounts and Audit (JCPAA) discussed the following issues:
- Reserve roles and tasks;
 - resources and costs; and
 - attraction and retention.
- 2.10 In particular, the Committee examined the progress Defence had made on audit report recommendations.

Reserve roles and tasks

- 2.11 The 2000 White Paper noted that the strategic role of the Reserves has changed from mobilisation to meet remote threats, to that of supporting and sustaining contemporary ADF military operations. It noted further that the contribution of the reserves will be essential to the maintenance of the ADF's operational capabilities.⁷
- 2.12 At the time of the audit, Army was conducting a Reserves Roles and Tasks study. The study team developed a task structure across the key functions of capability against which potential Reserve contribution could be assessed.⁸
- 2.13 Following consideration of the outcome of the Reserves Roles and Tasks study, the Deputy Chief of Army issued a Planning Directive. The Directive outlined the vision for Army-in-Being in 2003 (AIB 2003) and stated that the progression of AIB 2003 was focused on the implementation of the reserve Roles and Tasks

5 Brigadier N. Turner, Defence, *Transcript*, 30 April 2002, p. 2.

6 P. Barrett, ANAO, *Transcript*, 30 April 2002, p. 2.

7 Defence, *Defence 2000*, pp. xii, xiii.

8 ANAO, Audit Report No. 33, 2000–2001, p. 48.

study (RTA objective 3.2.2) and development of Combat Force Capability Levels.⁹

- 2.14 The development of AIB 2003 is aimed at delivering a sustainable land combat force to meet the Government's required range of military response options, while remaining cognisant of Army's intended future capability development path. This will be achieved by maximising the Reserve capabilities as part of a fully integrated Army.¹⁰
- 2.15 At the public hearing, the Committee questioned Defence about progress in defining Reserve roles and tasks, particularly in the Army Reserve.¹¹
- 2.16 Defence advised that the roles and tasks study had been subsumed by the broader issue of Army 2003¹² which was the modernisation of the ADF to meet the white paper requirements:

As we develop the deployment model for the Army, the roles and tasks of both regular and reserve units are being defined progressively. That process is now well advanced.¹³

- 2.17 In response to the Committee's question about whether improvements in recruiting had been evident, Defence stated that results were already becoming evident:

There are units that already have a much clearer statement of what is required of them. [The units] are specifically recruiting to that statement.

Some time has elapsed since the audit report was done, and recruitment has improved significantly.there is still some room to go.I think it will take a little bit longer before new roles and tasks have an impact.¹⁴

- 2.18 Defence drew attention to the fact that the Army 2003 model had yet to be endorsed through the Army committee process and the Chief of Army was yet to sign off on it. Defence advised that the

9 ANAO, Audit Report No. 33, 2000–2001, p. 49.

10 ANAO, Audit Report No. 33, 2000–2001, p. 50.

11 *Transcript*, 30 April 2002, p. 10.

12 Army 2003 is a concept which describes a sustainable structure for the Army Force-in-Being.

13 Turner, *Transcript*, 30 April 2002, pp. 10–11.

14 Turner, *Transcript*, 30 April 2002, p. 11.

model was scheduled to be formally endorsed in 2003.¹⁵ The Committee now understands that Army 2003 will be replaced by the Combat Force Sustainment Model (CFSM).

Categories of Reserve service

2.19 Responding to Committee questioning, Defence outlined the three categories of Reserve service which initially would be used in the Army:

- stand-by reserve (equivalent to the current inactive reserve);
- active reserve (equivalent to the Army General Reserve); and
- high readiness reserve (no current equivalent).

2.20 Defence noted that while there is currently no high readiness reserve, the number required in that category by the development of the Army 2003 deployment model will be qualified and migrated to the reserve:

The requirement essentially is that we need to be able to develop a long-term, deployable, brigade size force, which can be populated with successive rotations of people over time. To do that there will be a greater dependence on reserve forces than we have seen in the past.There will be a requirement for both high readiness and active reservists to be more actively involved in the delivery of the Army's capability.¹⁶

Committee comments

2.21 The Committee notes the comments of the audit report that the collective military capability of the Army Reserve is very limited and that previous efforts to revitalise the Reserve have not been successful, largely because roles and tasks have not been clearly defined and resources allocated to the Army Reserve from the Defence Budget have been insufficient to achieve the capability required by Army.¹⁷

2.22 The audit report made the point that the broad structure of the Army Reserve has remained largely unchanged over several

15 Turner, *Transcript*, 30 April 2002, p. 11.

16 Turner, *Transcript*, 30 April 2002, p. 9.

17 ANAO, Audit Report No. 33, 2000–2001, pp. 12, 38, 45–7, 50–1, 117.

decades. It is a conventional military structure with a hierarchy of division, brigade and battalion. The changed strategic role for the Reserves towards contemporary military operations, as outlined in the *Defence 2000* White Paper, raises the question of the appropriateness of current Army Reserve structures to meet changing roles and tasks.¹⁸

- 2.23 The Committee agrees that there are compelling reasons to rationalise the Army Reserve force structure to ensure that it is based on strategic guidance and on the outcomes of the Army's study of its Reserve roles and tasks. The Army Reserve should have the potential to contribute more substantially to the Army's force generation and military capability. There should be a strong link between the military capability required and the force structure that is developed.

Recommendation 1

- 2.24 **The Committee recommends that Defence:**
- (a) review its Army Reserve structure in order to develop a more efficient and effective structure which complements, rather than unnecessarily duplicates, capabilities that exist in the full time component; and**
 - (b) provide to the Committee formal six-monthly progress reports, separately from the Executive Minute process, on the progress of the review.**

Resources and costs

Resources

- 2.25 The size and structure of the Army Reserve result in significant equipment requirements. In comparison, Navy's integrated structure has led to only a limited requirement for dedicated equipment for Reserve elements. Similarly, Air Force Reserves have not generated a major demand for equipment resources.

18 ANAO, Audit Report No. 33, 2000–2001, p. 16.

One focus of the audit report was therefore on Army Reserve equipment levels.¹⁹

- 2.26 During fieldwork inspections by the ANAO, most Reserve units noted that equipment levels were generally adequate for their training requirements. Some units were short of specific pieces of equipment such as radios, ancillary equipment and ammunition. The ANAO considered that past equipment shortages had been alleviated by two factors: the remediation program and the reduced numbers of Reserves in most units.

Because most Reserve units have experienced a marked reduction in strength in the past 18 months the equipment levels are sufficient for the reduced numbers attending for training.²⁰

- 2.27 The Committee sought to ascertain what steps had been taken to ensure that adequate and appropriate equipment was available to Reserve units.²¹

- 2.28 Defence advised that the ongoing development of roles and tasks for Reserve units and the design of Army 2003 had led to a review of single entitlement documents (SEDs) for a wide range of Army units. This was a continuing process involving personnel as well as equipment:

There are...processes in place at the moment which are seeing the cross levelling of equipment between units, including reserve and regular units, so that we are matching the equipment and getting a good, fair and equitable distribution of equipment to all units to allow them to be properly equipped for the training they are undertaking. Again, that is a work in progress: the reviews, the cross-levelling of equipment and the maintenance and upgrade of equipment continue.²²

- 2.29 Defence advised the Committee that SED reviews had been completed for the majority of Army Reserve units.²³

19 ANAO, Audit Report No. 33, 2000–2001, p. 114.

20 ANAO, Audit Report No. 33, 2000–2001, p. 117.

21 *Transcript*, 30 April 2002, p. 4.

22 Turner, *Transcript*, 30 April 2002, p. 5.

23 Defence, Submission No. 10, p. 14.

Committee comments

- 2.30 The Committee notes that the process of defining the roles and tasks for Reserve units is progressing and that the three year rolling program of SED reviews is taking into account the results of this process.²⁴
- 2.31 The Committee strongly encourages the early completion of these reviews. Until the role and resource needs of the Reserve have been clarified there is no certainty that current recruitment, training and provisioning is appropriate for the future structure of the Reserve forces.

Costs

- 2.32 The ANAO asked Defence for data on the full cost of operating its Reserve Forces. Defence was able to supply a large range of data on Reserve direct operating costs (eg. salaries) but other costs associated with maintaining the Reserves had to be derived by the ANAO.²⁵
- 2.33 The ANAO was unable to obtain full cost information in respect of Navy and Air Force Reserves because of the integrated nature of their operations. Navy and Air Force costs were therefore sourced from Defence answers to Parliamentary Questions on Notice in May 2000, in which the Air Force Reserve was estimated to cost \$20 million, the Navy Reserve \$19 million, with \$1 million for the Assistant Chief of the Defence Force–Reserves. The ANAO observed that these were primarily direct costs and that the full costs would be considerably higher.²⁶
- 2.34 The audit report gave an indicative cost for the ADF Reserves in 1999-2000 of around \$1 billion, of which over \$950 million was the cost of the Army Reserve.²⁷
- 2.35 The Committee drew attention to the large annual government expenditure on the Reserve and expressed concern over the inability of Defence to provide full costing information to the ANAO.²⁸

24 Defence, Submission No. 3, p. 11.

25 ANAO, Audit Report No. 33, 2000–2001, p. 120.

26 ANAO, Audit Report No. 33, 2000–2001, p. 121.

27 ANAO, Audit Report No. 33, 2000–2001, p. 121.

28 *Transcript*, 30 April 2002, p. 5.

- 2.36 Defence responded that there were difficulties in costing the Reserve:

I think we are really struggling with the issue of costing inputs versus costing outputs. Currently, our focus is trying to cost the outputs. The Reserve is but a component that contributes to our capability overall, and trying to cost every individual component at the moment is an issue for us. What [Defence is] focusing on right now is trying to gather the cost to the outputs, and the methodology that has been used in the ANAO report to derive that cost is, I think, a reasonably fair reflection of the cost overall of the Reserve. To actually go through and do it as an input cost is quite a significant exercise and quite a demand on both our processing systems—we are not that sophisticated at this time.²⁹

- 2.37 Defence indicated that it did attempt to identify the cost of inputs, although not in the sophisticated way that an activity costing system would do. Defence advised that since the audit, it had been attempting to refine its input costing.³⁰

- 2.38 Defence advised the Committee that establishing the full cost of each Reserve Service:

...will require development of existing processes and reporting systems, as well as the maturation of planned financial and management systems and costing models. This combined with the complex usage of Reservists makes costing accuracy and extraction of accountability for such costs difficult.³¹

Committee comments

- 2.39 The Committee agrees with the ANAO that Defence should annually establish and publish the full costs of each Reserve Service and the capabilities provided, in order to provide full transparency of the costs of maintaining Reserve forces.

29 L. Williamson, Defence, *Transcript*, 30 April 2002, p. 6.

30 Williamson, *Transcript*, 30 April 2002, p. 6.

31 Defence, Submission No. 10, p. 15.

Recommendation 2

- 2.40 **The Committee recommends that Defence give urgent attention to developing its financial and management systems to enable it to provide full costing of the Reserve forces.**

Attraction and retention

Recruitment initiatives

- 2.41 In the Army Reserve, which has by far the largest number of Reserves, discharges have exceeded enlistments almost every year since 1988-89. In the past few years, the gap between separations and recruitment has increased. Prior to 1998, the posted strength of Army Reserves remained relatively constant at about 70 per cent of authorised establishment. However, since January 1998 this figure has fallen to 55 per cent. Reserve recruiting achievements against recruitment targets for the Services over the last three years is shown at Table 2.1.

Table 2.1 ADF Reserve recruiting achievement against targets, 1997–1998 to 1999–2000

Year	Navy		Army		Air Force	
	Target	Actual	Target	Actual	Target	Actual
1997-1998	112	56	4655	4671	80	83
1998-1999	149	30	4235*	2162*	146	82
1999-2000	104	29	4785	1417	119	104

Source: Defence Recruiting Organisation³²

* Modified figures were obtained from Table 5.1, Senate Foreign Affairs, Defence and Trade References Committee, *Recruitment and Retention of ADF Personnel*, October 2001, p. 72.

- 2.42 The Committee asked Defence whether Reserve recruitment targets were being met in 2001-2002 for each of the services.³³

³² ANAO, Audit Report No. 33, 2000–2001, p. 126.

³³ *Transcript*, 30 April 2002, p. 3.

- 2.43 Defence replied that it was still failing to achieve recruitment targets across the three services:

...for Navy we have achieved 21 per cent of the year-to-date target, for Army, 49 per cent; and for Air Force, 73 per cent³⁴

- 2.44 Defence indicated that numbers recruited to the Army Reserve in the current year were very close to numbers recruited in the previous year but that it was not possible to attribute any changes or otherwise in recruitment numbers to 'background factors' like the establishment of a call centre at Cooma or the change to direct unit recruiting.³⁵

- 2.45 Defence advised the Committee of a recent major conference of the Defence Force Recruiting Organisation (DFRO). One outcome of the conference was an agreement that the single services would take greater responsibility for attracting recruits to the Reserve and the DFRO would allocate a budget for the single services to take charge of the attraction process:

Recruiting has been slow for the Reserve and in recognition of that the aim is to have specific initiatives for Reserve recruitment....We do expect some significant gains in the next 12 months because of a total change in strategy.³⁶

- 2.46 In its submission of August 2001, Defence drew attention to Army's 'Direct to Unit' recruiting initiative and other new strategies to attract recruits to the Reserve:

This initiative has resulted in a significant upsurge in the level of interest shown through inquiries and has also translated into increasing numbers of applicants and enlistments.

The combination of enhanced advertising, flexible delivery of training and Direct to Unit Recruiting have enabled the Reserves to increase their uptake of applicants from all sections of the community and employment demographic.³⁷

34 Colonel M. Stedman, Defence, *Transcript*, 30 April 2002, p. 3.

35 Turner, *Transcript*, 30 April 2002, p. 4.

36 Commodore F. De Laat, Defence, *Transcript*, 30 April 2002, pp. 6-7.

37 Defence, Submission No. 3, p. 13.

- 2.47 On 25 May 2002, a new advertising campaign specifically addressing Reserve issues was launched at Holsworthy Barracks.³⁸

Committee comments

- 2.48 It is evident from Defence's submission dated August 2001, that Defence was optimistic that its new recruitment initiatives would improve current year recruitment to the Reserve. However, Reserve recruiting numbers for 2001-2002 are not significantly closer to meeting targets than they were in the previous year.³⁹
- 2.49 The Committee notes that Defence currently has high hopes for increased recruitment from its 'single service' initiative which began in May 2002.⁴⁰
- 2.50 It is clear to the Committee that Defence is making strong efforts to develop new recruitment initiatives. However, it is not clear to the Committee that Defence is acting on ANAO recommendation no. 11 (b). Defence needs to undertake more sophisticated early planning for its initiatives to include performance measurement elements. Close monitoring of its recruitment initiatives is vital to ensure that useful information is obtained at the earliest possible time.

Transfers from the permanent component

- 2.51 The audit noted that in the case of active Reserves in Navy and Air Force, approximately 80 per cent were former full time members. In Army, however, former members represented a much smaller proportion of active Reserves. The audit report stated that this was largely due to the stronger emphasis by Army on direct recruitment:

Army does not specifically target former full time members but the Sustainability Study, associated with the Restructuring Army trial concluded that recruitment of ex-permanent members would provide a substantial link to achieving capability in a sustainable Reserve, at an affordable cost.⁴¹

38 Defence, Submission No. 10, p. 3.

39 *Transcript*, 30 April 2002, p. 3.

40 *Transcript*, 30 April 2002, pp. 6-7.

41 ANAO, Audit Report No. 33, 2000-2001, p. 123.

- 2.52 The ANAO considered that there would be significant benefits to the ADF, and the Reserves in particular, if more full time members could be encouraged to volunteer for service with the Active Reserve.⁴²
- 2.53 During the hearing, the Committee asked Defence why Army had a lower transfer rate of full time members to the Reserve and the strategies that might reverse that trend.⁴³
- 2.54 Defence acknowledged that Army, in the past, had not had a policy of actively and seriously encouraging full time members who had finished their service to transfer to the Reserves.

In general, people were advised that there was an opportunity to do so, but it was not actively pursued, as opposed to some of the other services that actually had almost a compulsory policy...of transfer to the reserves. That obviously affected statistics in the past.

...the intent that is being developed for the new Defence regulations which are flowing from the changes to the legislation will have a requirement for people at the end of their full-time service—and, again, this is subject to a bit of market testing—to transfer to the Reserve....

We think it will probably be acceptable. We would probably provide some sort of 'out' clause for those for whom it was going to be a major problem. That is still in the process of development but that is the primary initiative.⁴⁴

- 2.55 Defence indicated that under the new regulations being drafted, permanent members would be required to transfer to the standby Reserve. Those individuals would have no training commitment but would have only a call-out obligation:

...a study [has been commissioned] to identify incentives to improve the transfer of members of the permanent force to the active reserve when they complete their full-time service. Phase 1 of that study has been completed and has identified a number of initiatives.⁴⁵

42 ANAO, Audit Report No. 33, 2000–2001, p. 124.

43 *Transcript*, 30 April 2002, p. 8.

44 Turner, *Transcript*, 30 April 2002, p. 8.

45 Stedman, *Transcript*, 30 April 2002, p. 9.

Committee comments

- 2.56 The Committee agrees with the ANAO that improvements in the capability and cost-effectiveness of the Reserves would result from an increased emphasis on promoting the transfer of retiring full-time members to the active Reserves. While the proposed Defence personnel regulations should effectively populate the inactive Reserve, the Committee strongly encourages the ADF to continue its work on identification and provision of incentives which could lead to an increase in the numbers of personnel available for active Reserve service.

Retention

- 2.57 Recruitment to the Army Reserve has failed to keep pace with the level of separations for more than 10 years. For most of this period there has been only a gradual decline in the overall size of the Reserve, but there has been a marked acceleration in the rate of decline since 1997. Separations have been in the vicinity of 20 per cent per annum for the past 10 years and, in absolute terms, the separations in the last three years has been in line with, or lower than, historical figures. It is primarily the shortfall in recruitment that has led to the notable recent reduction in the size of the Reserve.⁴⁶
- 2.58 The Committee asked Defence its opinion on the core reasons for separation from the Army Reserve.⁴⁷ Defence responded that reasons for separation had been determined through focus groups, informal discussions, discussions with units and unit commanding officers, and sometimes with available Reservists.⁴⁸ Changing marital status, other family factors and a general waning of interest possibly due to the reality that Reserve service was more limited and less exciting than Regular service, were among the factors responsible for separation:

The wastage rate at the moment is probably the lowest in the last 30 years. It has been as high as 40 per cent and it is currently running at about 13 per cent. ...it is quite within acceptable bounds in terms of wastage.⁴⁹

46 ANAO, Audit Report No. 33, 2000–2001, p. 134.

47 *Transcript*, 30 April 2002, p. 11.

48 Lt.Col. Sillcock, Defence, *Transcript*, 30 April 2002, p. 13.

49 Sillcock, *Transcript*, 30 April 2002, p. 12.

- 2.59 In response to the Committee's query as to whether routine discharge interviews were held to ascertain reasons for separation, Defence stated that such interviews were carried out in the Regular forces but not in the Reserve forces. A current study being done on the Reserves will recommend that an exit survey be administered, where possible, to people leaving the Reserves:

It is slightly different in the reserve in that we do not always have the opportunity to speak to reserve soldiers because they may miss a week's parade and then we do not see them again. We do not have a formal departure mechanism.⁵⁰

Committee comments

- 2.60 The Committee notes that no formal research has been done into identifying reasons for separation from the Reserve forces. While the Committee acknowledges that there is some internal interest in Defence in conducting exit surveys, the Committee considers that contracting out a study of the reasons for separation from the Reserve may be more cost-effective and more informative.

Recommendation 3

- 2.61 **The Committee recommends that Defence commission an external study of the reasons for separation from the Reserve, and commission further studies on this issue from time to time.**

Implementation of Audit Report recommendations

- 2.62 The Committee asked Defence to provide an update on its implementation of the audit report recommendations and its interaction with the Auditor-General in relation to the implementation.⁵¹
- 2.63 Defence took the question on notice and its reply to the Committee is included in submission no. 10 to this review which is reproduced in full at Appendix D.

50 Sillcock, *Transcript*, 30 April 2002, p. 13.

51 *Transcript*, 30 April 2002, p. 13.

- 2.64 Defence advised the Committee that both the Defence Audit Committee (on which the ANAO had observer status) and the Defence Committee (chaired by the Secretary of Defence) received regular reports on progress of all ANAO and JCPAA recommendations which Defence had agreed to implement.⁵²

⁵² Defence, Submission No. 10, p. 1.

Audit Reports No. 34 and 35, 2000–2001

Centrelink's Assessment of New Claims for the Age Pension

Centrelink and the Department of Family & Community Services

Background

- 3.1 Centrelink provides services in relation to the delivery of personal benefit and other payments on behalf of twenty major client agencies.¹ Services delivered for the Department of Family and Community Services (FaCS) accounted for approximately 90.5% of all Centrelink business in 2000–2001.² A major income support payment that Centrelink delivers for FaCS is the Age Pension, available to pension age Australian residents and eligible Australians residing overseas, whose income and assets are under certain limits.
- 3.2 In 1999–2000, the period of the audit, nearly \$14 billion was paid to approximately 1.7 million Age Pension recipients.³ In 2000–

1 Centrelink, *Annual Report 2000–2001*, Commonwealth of Australia 2001, p. 53.

2 FaCS, *Annual Report 2000–2001*, Commonwealth of Australia 2001, p. 231.

3 ANAO, Audit Report No. 35, *Family and Community Services' Oversight of Assessment of New Claims for the Age Pension by Centrelink, 2000–2001*, Commonwealth of Australia, p. 23.

2001 this had increased to over \$18.6 billion paid to over 1.79 million Age Pension recipients.⁴

- 3.3 The Australian National Audit Office (ANAO) estimated that during a six months' period from 1 October 1999 to 31 March 2000, about 28 213 people lodged new claims for the Age Pension. Of these, 23 662 (83.9%) were accepted and 4551 (16.1%) were rejected. The accepted claims, accounting for around 1.4% of all current age pensioners, cost around \$160 million per annum (1.1% of total expenditure on Age Pensions). For these new eligible claims, the ANAO estimated that approximately 9040 customers received a full-rate pension of \$9670 per annum and approximately 14 622 received a part-rate pension averaging \$4830 per annum.⁵
- 3.4 Payment of the age pension is made under the *Social Security Law* and in accordance with the *Guide to the Social Security Law* prepared by FaCS. The Age Pension program is delivered via a purchaser / provider agreement whereby FaCS, on behalf of the government, purchases program delivery and associated services from Centrelink.⁶

The audit

- 3.5 For these reasons, the ANAO conducted the two audits in parallel. These were then tabled as Audit Report No 34, 2000–2001, *Assessment of New Claims for the Age Pension by Centrelink*, and Audit Report No 35, 2000–2001, *Family and Community Services' Oversight of Assessment of New Claims for the Age Pension by Centrelink*.
- 3.6 ANAO considered that the two audits:
- would provide assurance to Parliament and the public about the implementation of government policy in relation to the Age Pension program; and
 - could identify opportunities for improvement in the administration of the Age Pension program.
- 3.7 The objectives of the audits were to examine the extent to which new claims for Age Pension had been assessed in compliance

4 FaCS, *Annual Report 2000–2001*, pp.198, 202.

5 ANAO, Audit Report No. 34, *Assessment of New Claims for the Age Pension by Centrelink*, 2000–2001, Commonwealth of Australia, p. 44.

6 ANAO, Audit Report No. 35, 2000–2001, p. 23.

with the *Social Security Law*, the *Guide to the Social Security Law* and other relevant guidelines developed by Centrelink; and whether Centrelink employed appropriate mechanisms to confirm such compliance. ANAO also assessed whether FaCS had established effective business arrangements with Centrelink to help ensure that new claims for Age Pension were properly assessed in accordance with relevant legislation.

- 3.8 The audit focus was on compliance management, as an important element of corporate governance, and on accountability and performance. The audit did not seek to determine the impact of new claims assessment errors on total Age Pension outlays.
- 3.9 The scope of the audits was on Centrelink's preventive controls to enhance accuracy in decision-making and its preventive quality controls to ensure correct decisions at the new claim stage. This focus on preventive controls was consistent with the priorities in the Business Partnership Agreements (BPAs).
- 3.10 Accurate decision-making at the new claims stage is an essential component of good customer service. ANAO used as the basis of its audits, Centrelink's own working definition of accuracy: 'payment at the right rate, from the right date, to the right person with the right product'.⁷ ANAO also examined the accuracy of Centrelink's own reporting on compliance, as provided to FaCS.
- 3.11 Centrelink seconded four employees with considerable Age Pension assessment expertise to work with ANAO in the:
- development of the audit test criteria;
 - examination of the claims assessments selected for audit against these audit test criteria;
 - fieldwork interviews; and
 - interpretation of the overall findings of the claims assessment audit.⁸
- 3.12 In addition, staff from the Retirement Community Segment Team (RCS) provided logistical support to coordinate the retrieval of the files corresponding to claims assessments selected for audit. In summary, ANAO did all it could to ensure it was auditing new claims assessments and payments according to the performance expectations of both FaCS and Centrelink.

7 ANAO, Audit Report No. 34, 2000-2001, p. 49.

8 ANAO, Submission no. 7, p. 3.

3.13 ANAO pointed out at the public hearing:

The methodologies and the concepts were agreed at the start of the audit...we did not question the reasonableness of the standard or its achievability. It was really looking at what Centrelink had put up for themselves to assess as part of the agreement process.⁹

Business Partnership Agreement

3.14 ANAO also examined those aspects of the FaCS–Centrelink business arrangements designed to assist FaCS in its oversight of the assessment of new claims for the Age Pension by Centrelink. Central to these arrangements is the Business Partnership Agreement (BPA) between FaCS and Centrelink, requiring Centrelink to assess new claims for the Age Pension and to make payments at the correct rate in accordance with legislation to eligible claimants only.

3.15 In all, there have been three BPAs. ANAO examined both the 1999–2001 and the 2000–2001 BPAs, with the latter commencing on 1 July 2000.¹⁰ The 2001–2004 BPA was signed on 31 July 2001 and is outside the scope of these ANAO’s audits.¹¹

3.16 The Committee noted Centrelink’s comments that in negotiating the BPAs, Centrelink and FaCS ‘did not have a really good assurance framework...[to judge] the quality of our decision making’.¹² As Ms Vardon told the Committee:

One of the things that we wanted to do with the framework was to actually make it transparent, something that we could report against in an annual report that we would agree with some confidence represented the truth and definitions that we all agreed to, because there was no real definition of agreement. We could not agree on the definition of error [with FaCS].¹³

3.17 The Committee found it unusual that no agreed definition existed in the various BPAs, and this resulted in different interpretations of errors and measures of accuracy.¹⁴

9 P. Barrett, ANAO, *Transcript*, 30 April 2002, p. 40.

10 ANAO, *Audit Report No. 35, 2000–2001*, p. 11.

11 Centrelink, *Annual Report 2000–2001*, p. 54.

12 S. Vardon, Centrelink, *Transcript*, 30 April 2002, p. 35.

13 Vardon, *Transcript*, 30 April 2002, p. 36.

14 *Transcript*, 30 April 2002, pp. 36–40.

Performance indicators

- 3.18 Under the 1999–2001 BPA, the primary performance indicator for Centrelink was accuracy. The proportion of claims correctly assessed was measured by Centrelink's Procedure and Accuracy Check (PAC) system.¹⁵ For the 2000–2001 BPA, this changed. The measuring was done by a new accuracy checking software called Quality On-Line (QOL), introduced on 25 May 2000.¹⁶ The accuracy standards, sampling regime and pay advancement performance thresholds however, remained essentially the same as for PAC.¹⁷
- 3.19 The 1999–2001 BPA stated that the major priority area for Centrelink in 1999–2000 was 'payment correctness, and consistency and accuracy in decision-making.' The 1999–2001 BPA standard was 95% of new claims assessments 'correctly assessed', as measured by the PAC system. The 2000–2001 BPA standard was 95% of all claims 'completely accurate' in terms of correctness of payment as measured by QOL.¹⁸
- 3.20 Both the 1999–2001 BPA and the 2000–2001 BPA clearly specified that the assessments of new Age Pension claims should comply with the *Social Security Law* and the *Guide to the Social Security Law*. The 2000–2001 BPA identified three key strategies for maximising correct payments—prevention, detection and deterrence. Of these, it gave priority to prevention, stating that 'the primary aim of control strategies, as far as possible, will be to prevent incorrect payments, rather than detect them later'.¹⁹

Performance reporting

- 3.21 Centrelink stated in its *1999–2000 Annual Report* that it had met the majority of its performance targets.²⁰ Chief among these were timeliness and accuracy of new claims processing. In its *1999–2000 Annual Report*, Centrelink reported to FaCS and Parliament

15 The PAC system was a quality improvement and risk management tool used by Centrelink to undertake sample checking of new claims and reassessments.

16 QOL was designed to reduce the likelihood of user error during the checking process; to identify the source of assessment error to inform training; and to provide more comprehensive management information reports on accuracy in decision-making.

17 ANAO, Audit Report No. 34, 2000–2001, p. 46.

18 ANAO, Audit Report No. 34, 2000–2001, p. 46.

19 ANAO, Audit Report No. 34, 2000–2001, p. 48.

20 Centrelink, *Annual Report 1999–2000*, p. 25.

that it had exceeded the 95% accuracy target for the processing of new Age Pension claims, achieving a 98% accuracy standard, while its timeliness result of 87% exceeded its target of 80%.²¹

- 3.22 These remained the two key performance measures for the Age Pension program reported by both FaCS and Centrelink in their *2000–2001 Annual Reports*.²² In 2000–2001, the BPA accuracy target was 95% but Centrelink did not provide any performance data.²³ In reference to timeliness, Centrelink stated that it had exceeded the agreed BPA standard ‘for approximately 86 per cent of all payments during 2000–2001’.²⁴

Audit findings

- 3.23 ANAO estimated that during its six month sample period, some 28 213 people lodged new claims for the Age Pension. Of these claims, 6717 (24%) were simple, 14 053 (50%) were complex and 7443 (26%) were very complex.²⁵ Since a wide diversity in the complexity of Age Pension claims could be expected, ANAO reasoned the error rate would increase with the complexity of claims. It noted, however, that assistance was generally available to customer service officers for more complex claims.²⁶ Nevertheless, ANAO believes that new claims processing is a ‘difficult area of performance information’. The Auditor-General told the Committee there is a need for:

...reducing the complexity of the environment—and this is a complex environment—to get it to at least a reasonable level so that people out there who have to administer it understand clearly what they are meant to do...²⁷

21 Centrelink, *Annual Report 1999–2000*, p. 26; FaCS records the timeliness performance result as 86% and the accuracy as 98%; FaCS, *Annual Report 1999–2000*, p. 386.

22 Centrelink, *Annual Report 1999–2000*, p. 25; Centrelink, *Annual Report 2000–2001*, p. 55; FaCS, *Annual Report 1999–2000*, p. 386.

23 Centrelink, *Annual Report 2000–2001*, p. 84.

24 Centrelink, *Annual Report 2000–2001*, p. 55.

25 ANAO, Audit Report No. 34, 2000–2001, pp. 54–55.

26 ANAO, Audit Report No. 34, 2000–2001, p. 55.

27 Barrett, *Transcript*, 30 April 2002, p. 40.

Actionable errors

- 3.24 ANAO's identification of an actionable error was based on the information available to the audit team at that time. These errors had been checked against one or more of the eight major test criteria according to Centrelink's working definition of accuracy, which underpinned both Centrelink's own reporting under the BPA, and the ANAO's major audit test criteria.²⁸ An actionable error is defined as one which, if detected within Centrelink, required follow-up action—such as review of the claim by the original decision maker.
- 3.25 ANAO further divided the actionable errors into 'quantifiable' (27.6%) and 'unquantifiable' (24.5%).²⁹ ANAO found:
- 65.3%(+/-15.8 pp)³⁰ of quantifiable payment rate errors among new Age Pension claimants involved an incorrect payment of at least \$10 per fortnight (both overpayments and underpayments). This translates to a payment rate error rate of +/- \$10 or more per fortnight for 8.8% (+/-3.2 pp) of the entire population of new Age Pension claims assessments.³¹
- 3.26 The Committee was concerned about these findings as under and overpayments can cause hardship to age pension recipients. Overpayments could result in difficulties with repayments after the event while underpayments may mean deprivation. The high rate of assessment errors found in the audit indicated that Centrelink's quality controls were not fully effective. The need to make corrections later on indicated inefficiency. The Committee believes Centrelink should do everything possible to prevent errors in initial new claims assessments.
- 3.27 Audit findings indicated that the BPA accuracy standard of 95% for 2000–2001 was unattainable. The Committee has noted that Centrelink did not provide any figures against this standard in Centrelink's *2000–2001 Annual Report*.

28 See ANAO, Audit Report No. 34, 2000–2001, pp. 57–58.

29 ANAO, Audit Report No. 34, 2000–2001, pp. 64, 66; See ANAO definitions on pages 153–157.

30 ANAO's findings showed quantifiable variations to new claims assessment were as high as 15.8 percentage points in either direction, resulting in possibly incorrect payments. These errors were often corrected later on, sometimes after clients had complained.

31 ANAO, Audit Report No. 34, 2000–2001, p. 64; ANAO, Submission no. 7, p. 3.

Quantifiable actionable errors

3.28 When interpreting the overall level of actionable error, ANAO cautioned that not all actionable errors translated into payment rate errors. Nevertheless based on the information available at the time, five of the ten actionable error types listed definitely resulted in payment errors and were described as ‘quantifiable actionable errors’ in the audit. ANAO summarised the result of its analysis in Appendix 5, Table 21, of Audit Report No. 34. The table shows five quantifiable actionable errors such as claims rejected when they were eligible (16.1%) and claims accepted when they were ineligible (83.9%).³²

3.29 ANAO stated in its report:

...if left uncorrected, the quantifiable actionable errors identified would have resulted in:

- an ongoing overpayment of Age Pension and Telephone Allowance of \$2.52 million (+ / -\$3.3 m) per annum (out of annualised expenditure of around \$160 m); and
- a once-off underpayment of Age Pension of \$30 000 (+ / -\$280 000) as a result of commencement date errors.³³

3.30 As ANAO emphasised at the public hearing:

The point that we are making in the report is that the right payment might be made, but if there is an overpayment—and overpayment is just as bad or worse than an underpayment—... [we need] to get it to at least a reasonable level so that people out there who have to administer it understand clearly what they are meant to do and that, at the end of the day,...there are systems in place to redress that as quickly as possible.³⁴

3.31 The Retirement Community Segment Team (RCS) agreed that the PAC / QOL systems should have recorded a claims assessment with one or more actionable errors as an ‘inaccurate assessment’ for reporting under the BPA. Namely the PAC / QOL error rates should have approximated the actionable error rate identified by the ANAO but did not.³⁵ Hence the difference in measurements

32 ANAO, Audit Report No. 34, 2000-2001, p. 144.

33 ANAO, Audit Report No. 34, 2000-2001, pp. 65-66.

34 Barrett, *Transcript*, 30 April 2002, p. 40.

35 ANAO, Audit Report No. 34, 2000-2001, p. 59.

of error between those stated in the audit report and Centrelink's in its annual reports.

Unquantifiable actionable errors

- 3.32 The remaining five actionable error types required further information from either the customer or another source to establish entitlement and / or the correct payment rate. These were described as 'unquantifiable actionable errors'—namely they could not be quantified by ANAO without such additional information. Follow-up activity by Centrelink revealed that many of these unquantifiable actionable errors reflected poor documentation and may not translate into actual payment rate errors.³⁶ Centrelink's own compliance monitoring controls, however, should have flagged an incorrect assessment in such cases.
- 3.33 The ANAO estimated that 17.0% (+ / -5.0 pp) of new claims assessments contained possible payment rate errors where it was not possible to estimate the financial impact of these errors without further information. Among these errors was a high number with insufficient Proof of Identity (13.5%), Proof of Age (10.8%) and Proof of Residency (27.9%) documentation.³⁷
- 3.34 If *all* the administrative errors associated with unquantifiable actionable error processes (ie. failure to put photocopies of documents on file; failure to date, stamp and sign copies; or failure to correctly code details on the mainframe file) were included in ANAO's figures, then the error rates would increase to 76%, 63% and 84% respectively.³⁸

Non-actionable assessment errors

- 3.35 ANAO found that almost all new claims assessments (95.6% + / -3.5 pp) contained at least one of the administrative errors listed in Appendix 5, Table 22 in Audit Report No. 34. An example of administrative errors given at the public hearing was tax file numbers being left on forms, in contravention of privacy legislation.³⁹ Such errors did not generally impact on Age

36 ANAO, Audit Report No. 34, 2000-2001, p.67.

37 ANAO, Audit Report No. 34, 2000-2001, p.67.

38 ANAO, Audit Report No. 34, 2000-2001, p.67.

39 See discussion in *Transcript*, 30 April 2002, p. 32.

Pension payments. Other errors such as failing to have the client sign the claim form were more substantive.⁴⁰

- 3.36 Administrative issues were often of low priority for staff under workload pressures, and the high rate of administrative errors may reflect a degree of 'risk management' by staff. ANAO reported that 'many CSOs [customer service officers] noted that managers had encouraged them to "cut corners" on matters that did not present a risk of incorrect payment, in order to improve the timeliness of customer service.'⁴¹ A number of staff, however, commented they were unsure of the rules relating to document handling. Many considered that new-starters were not given sufficient training on file management.
- 3.37 Given that timeliness was the other key performance measure, this approach is understandable. Timely turnover of client claims enabled Centrelink to report in its *2000–2001 Annual Report* that it 'exceeded the FaCS BPA timeliness standards for approximately 86 per cent of all payments during 2000–01'.⁴²
- 3.38 The Committee strongly supports the change being introduced in the *Getting It Right* stage II action plan whereby Strategy 3 emphasises the importance of achieving accuracy through checking 'even if timeliness suffers'.⁴³ It notes that this message is being incorporated into speeches by the Minister and by the Chief Executive Officer to all Centrelink staff.⁴⁴ The Committee is firmly of the opinion that complete accuracy at the new claim stage would reduce client stress and improve confidence in the processing of payments.

Complex assessments

- 3.39 The assessment of new claims for the Age Pension involves consideration of many factors, including a claimant's income, assets and accommodation details such as home ownership. Any diversity of factors produces considerable variation in the complexity of each assessment. Increasingly, there have been more complex claims as a result of claimants' share ownership [eg Telstra, NRMA, AMP], government targeting of benefits and the

40 ANAO, Audit Report No. 34, 2000–2001, pp. 30, 145.

41 ANAO, Audit Report No. 34, 2000–2001, p. 68.

42 Centrelink, *Annual Report 2000–2001*, p. 55.

43 See *Getting It Right* Stage II, p. 2.in Centrelink, Submission no. 8, p. 6.

44 See *Getting It Right* Stage II, p. 2.in Centrelink, Submission no. 8, p. 6.

deregulation of financial markets.⁴⁵ This impacts directly on Centrelink's first line CSOs who must deal initially with such complexity on a daily basis.

- 3.40 ANAO, however, found that there was a general lack of knowledge about technical aspects of business assessments among CSOs and errors were made from incorrect assumptions. Sometimes this meant that CSOs did not ask for all the pertinent information or documents.⁴⁶ Therefore specialists were sometimes making the next stage assessment on incomplete or inaccurate information.
- 3.41 The Committee wanted to clarify whether the errors being made related to simply human errors such as mis-recording names and addresses or non-compliance with administrative rules, or were they the result of complexities such as sales of trusts and various assets and properties. ANAO noted that the assessment system seemed very complex in itself, with duplicate questions and a large number of administrative rules.⁴⁷ Having to make about 200 checks would result in some errors.⁴⁸ Furthermore, the audit found that when complex claims were referred to specialists, the error level was significantly reduced.⁴⁹
- 3.42 This improvement in accuracy suggests that CSOs require more than just basic processing and technical training from the start. At the public hearing, Centrelink appeared to expect its CSOs to gain experience on the job before they are given further training.

By and large, the people to whom we give the complex assessment officer jobs are people with a lot of experience in the particular area. We do not generally recruit people externally specifically for these roles because it does take a very long time generally for somebody to be totally conversant, particularly with the complexity of the age pension program. Usually they are internal people who

45 See sample of a *Retirements Income and Assets Statement*, Centrelink, Exhibit No. 6, pp. 2-3.

46 ANAO, Audit Report No. 34, 2000-2001, pp. 77-78.

47 ANAO, Audit Report No. 34, 2000-2001, p. 30; J. Raymond, FaCS, *Transcript*, 30 April 2002, p. 33.

48 ...complexity relate to the layers and layers of administrative steps and rules, many of which have been added over the years but now add little value in the way of assuring that the payment has in fact been made 'to the right person, at the right rate, on the right dates'. Centrelink, *Transcript*, 30 April 2002, p. 30.

49 ANAO, Audit Report No. 34, 2000-2001, p. 31.

have shown us over time that they have a good grasp of the material.⁵⁰

- 3.43 Centrelink told the Committee that it had specially trained staff who were able to deal with the ever increasing complexity of financial arrangements that retirees were undertaking. Currently it employed 172 Complex Assessment Officers, an increase from the 42 at the time of the audit.⁵¹ These officers were given specialised training as well as accessing on-line learning.⁵² These officers are shared across a number of offices since Centrelink tries to centralise specialist skills in particular sites or areas.⁵³ Centrelink, however, acknowledged that errors may occur where information is being initially collected by a non-specialist officer who is unaware of the significance of what is being recorded.⁵⁴

Centrelink's response to the audit

- 3.44 In its first submission to the Committee, Centrelink acknowledged that 'the most important learning we have gained from the audit is the importance of greater clarity around assurance and in particular, definitions of accuracy'.⁵⁵ Centrelink, however, had some reservations about ANAO's reported findings because further checks post-audit by Centrelink staff 'indicated that the actual errors were significantly smaller (less than a third) than that reported by ANAO'.⁵⁶
- 3.45 At the public hearing, Centrelink maintained: 'The quality on line tool was a measure of some things; it was not necessarily a measure of accuracy as tested by the audit.'⁵⁷ It also reported that 'the aged people are the most satisfied; we have a very high satisfaction rating with them'.⁵⁸

50 C. Hogg, Centrelink, *Transcript*, 30 April 2002, p. 42.

51 Vardon, *Transcript*, 30 April 2002, p. 30.

52 Hogg, *Transcript*, 30 April 2002, pp. 42–43.

53 Hogg, *Transcript*, 30 April 2002, p. 43.

54 Hogg, *Transcript*, 30 April 2002, p. 43.

55 Centrelink, Submission no. 1, p. 1.

56 Centrelink, Submission no. 1, p. 1.

57 Vardon, *Transcript*, 30 April 2002, p. 31.

58 Vardon, *Transcript*, 30 April 2002, p. 44.

Accuracy rates

3.46 The Committee asked Centrelink to what extent errors resulted from poor morale, understaffing or overwork. These included 'errors in taking down basic information or, indeed, Centrelink being notified of changes in circumstances, changes of address and so on and that information not being recorded properly, even after several notifications'.⁵⁹

3.47 In response, Ms Vardon replied:

To the extent that there are occasions when we do not get it right, there are human errors. ...From time to time, when we have peaks and troughs, our temporary staff do not enter data right. ...if you have a temporary person or somebody who is not well trained, they are more likely to make an error than an experienced person on a new claim, or a new experience, and where it is done in front of the customer who can see it.⁶⁰

3.48 Since the audit field work, Centrelink has introduced changes. Information received from Centrelink after the public hearing, showed that all claims processed by inexperienced staff are now being checked and the definitions used to check correctness have been refined.⁶¹ Consequently, Centrelink found that the percentage of cases assessed as accurate at the first check has fluctuated from 92.8% in December 2000 to 85.1% in April 2002, with the lowest accuracy rate (84.8%) recorded in February 2002.

3.49 The Committee noted that these figures differed from the 98% accuracy claimed by Centrelink in its *1999–2000 Annual Report* or the 'less than a third' stated in Centrelink's submission dated 20 August 2001. Centrelink itself concluded about the latest accuracy rates provided above:

...this is in fact a positive outcome as it indicates that both business assurance and service delivery errors are being detected and corrected before the customer is paid.⁶²

59 *Transcript*, 30 April 2002, p. 43.

60 Vardon, *Transcript*, 30 April 2002, p. 46-47.

61 See *Getting It Right* Stage II, p. 1 in Centrelink, Submission no. 8, pp. 3, 5.

62 Centrelink, Submission no. 8, p. 4.

Getting it right

- 3.50 During the audit, when Centrelink became aware of ANAO's findings, it developed its *Getting it Right* Strategy, which was launched in November 2000.⁶³ The strategy emphasised the importance of accuracy as part of the assurance Centrelink provided to FaCS and aimed to reduce the amount of rework needed when errors occurred.⁶⁴ The six Minimum Standards related to:
- proof of identity;
 - records management;
 - documenting information to facilitate customer contact;
 - keeping technical knowledge and skills current;
 - recording reasons for decisions; and
 - check the checking.⁶⁵
- 3.51 Since then Centrelink developed *Getting it Right* stage II to feed into the 2002-03 overall assurance framework between Centrelink and FaCS. The Committee wanted to know the extent this action plan reflected agreed performance indicators for Centrelink. In response, FaCS explained that negotiations were still under way and the new performance indicators were not reflected in *Getting it Right* stage II.⁶⁶
- 3.52 Centrelink told the Committee it is developing with its IT consultant, Softlaw, a 'smart internet ready computer program called 'Edge' which incorporates the thousands of rules within the family tax benefit system'.⁶⁷ Currently this is operating on a pilot basis in the family assistance program only. 'Edge' will enable automated assessment of a client's entitlement, based on answers to questions on a screen.⁶⁸

63 Centrelink, Submission no. 1, p. 2.

64 Hogg, *Transcript*, 30 April 2002, p. 48. One effect is that Centrelink is now holding so much information about why certain decisions are made and commentary about what staff are finding when they talk to customers that Centrelink has to revise and rebuild its IT system.

65 Centrelink, Submission no. 1, p. 2.

66 Raymond, *Transcript*, 30 April 2002, p. 50.

67 Centrelink, Submission no. 6, p. 2; Centrelink, *Transcript*, 30 April 2002, p. 31.

68 Centrelink, Submission no. 6, p. 2; Centrelink, *Transcript*, 30 April 2002, p. 31.

The Way Forward

- 3.53 In February 2001, the Minister established a Rules Simplification Taskforce to simplify administrative requirements and arrangements for Centrelink clients: such as the elimination of duplicate questions and the fast-tracking of claims where customers return within a 52-week period.⁶⁹
- 3.54 One innovation being developed is a Centrelink Customer Account, whereby a client will not have to provide information they have already given. Instead they can update the existing information or provide new information to their electronically accessed claim forms.⁷⁰ In addition, clients need only provide one proof-of-identity document instead of the current three and the number of questions for age pension claimants has been halved.⁷¹

Customer account

- 3.55 The customer account, once operational, will show the client exactly what information about them Centrelink is holding, so that errors can be picked up. Every time they return, Centrelink will refresh that information and clients will get a copy of what Centrelink is holding. This customer account will remove the need to repeat information and make it a simpler and quicker process.⁷² Eventually, through this customer account process, clients will be able to access their own 'information online, or perhaps even phone in on regular occasions and be taken through their account'.⁷³

...there will be an encouragement by us for customers to take a lot more ownership of their own information through this process...We may even train our customers to be able to access their information in this way. We will start very practically, of course, by giving them maybe an account statement on a regular basis, which can help to replace the millions of letters that we send out on individual issues. That will also help them help us to keep their information more accurate and up to date.⁷⁴

69 Raymond, *Transcript*, 30 April 2002, p. 33.

70 FaCS, *The Way Forward—Rules Simplification*, December 2001, pp.3–4.

71 FaCS, *The Way Forward*, pp. 6–7.

72 Hogg, *Transcript*, 30 April 2002, p. 48.

73 Hogg, *Transcript*, 30 April 2002, p. 49.

74 Hogg, *Transcript*, 30 April 2002, p. 49.

- 3.56 The Committee applauds the rules simplification being introduced by FaCS and Centrelink, since this will result in a 'whole-of customer' approach. Together with the introduction of Edge, the processing of client information at both the new claim and subsequent stages should be more accurate and streamlined. This should promote more confidence among clients and reduce much of the stress resulting from over and under payments of entitlements.

Receipts

- 3.57 Centrelink told the Committee that at present clients requesting a copy of their Income and Assets Statement have to visit their local Customer Service Centre. In the future, they will be given a receipt number so they can go online when they want to make changes and there will be a record inside their own computer.⁷⁵ 'But at the customer service centre level, we have not yet worked out a receipting mechanism. That is something that we want to be able to do.'⁷⁶

Committee comments

- 3.58 In this report review, the Committee acknowledges the current complexity of Centrelink's operating environment, and the demands placed on its CSOs undertaking new claims assessments. It also acknowledges that the audit results were based on the sample culled during the audit six-month sample period and relied on information in the customer files and electronic records available to the audit team during its fieldwork. Nevertheless, the audit report demonstrated, in a statistically sound way, the gaps between the standards set and the results achieved. The Committee was reassured to some extent that errors which may have resulted in possible over or under payments, could be subsequently corrected by Centrelink's follow-up activities.
- 3.59 The Committee expected that such errors would be picked up and included in Centrelink's reporting of error rates to FaCS under the BPA and therefore, is concerned that inaccurate performance

⁷⁵ Vardon, *Transcript*, 30 April 2002, p. 49; Centrelink, Exhibit No. 6, p. 4

⁷⁶ Vardon, *Transcript*, 30 April 2002, p. 49.

statements may appear in agencies' annual reports.⁷⁷ The audit results showed that Centrelink's performance in this area of its administration was not of the standard expected nor as reported to FaCS.

- 3.60 The Committee has noted that since the audit, Centrelink has developed a number of measures to address some of the identified shortcomings in its processing of new claims. These were outlined in Centrelink's *2000–2001 Annual Report*⁷⁸ and explained more fully to the Committee at the public hearing. The Committee further noted that no actual performance results for accuracy were published by Centrelink against the BPA targets in 2000–2001.⁷⁹
- 3.61 In regard to the audit of FaCS's oversighting of Centrelink, the Committee is cognisant of ANAO's conclusions that FaCS was unable to monitor and evaluate Centrelink's performance effectively, although it provided Centrelink with appropriate business and risk management frameworks. The Committee is aware that FaCS has assigned high priority to the implementation of the three audit recommendations to correct this shortfall. Furthermore, the Committee acknowledges that FaCS in its re-negotiation of its BPA with Centrelink, is implementing a strategy to enable independent validation of Centrelink's performance.⁸⁰ The Committee would like to examine the performance indicators when they are finalised.

Recommendation 4

- 3.62 **The Committee recommends that the Department of Family and Community Services (i) finalise as quickly as possible, its strategy to enable independent validation of Centrelink's performance, taking the Auditor-General's recommendations into account; and (ii) provide a copy of this agreed strategy to the Committee.**

77 Transcript, 30 April 2002, p. 40.

78 Centrelink, *Annual Report 2000–2001*, pp. 60–61.

79 Centrelink, *Annual Report 2000–2001*, p. 84.

80 FaCS, *Annual Report 2000–2001*, p. 266.

Audit Report No. 43, 2000–2001

Performance Information under the Natural Heritage Trust

Department of Agriculture, Fisheries and Forestry, and
Department of the Environment and Heritage

Introduction

Background

- 4.1 The Natural Heritage Trust (NHT) is authorised under the *Natural Heritage Trust of Australia Act 1997* (the Act). Currently, the NHT consists of a suite of 23 environmental and natural resource management programs. A Ministerial Board is responsible for, among other things, monitoring the effectiveness of the administration of the Act in terms of achieving program objectives. The NHT is administered by the departments of Environment and Heritage (Environment Australia), and Agriculture, Fisheries and Forestry (AFFA). Funding set aside for the period 1996-97 to 2001-02 was some \$1.5 billion (NHT1).¹

1 ANAO, Audit Report No. 43, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust, 2000–2001*, Commonwealth of Australia, p. 11.

- 4.2 The Government decided on a five year extension to the NHT (NHT2) from 2002-2003 to 2006-2007 and will provide an additional \$1 billion of funding for the extension.²
- 4.3 The goal of the NHT is to stimulate activities in the national interest to achieve the conservation, sustainable use and repair of Australia's natural environment. The objectives are to:
- provide a framework for strategic capital investment to stimulate additional investment in the natural environment;
 - achieve complementary environment protection, natural resource management and sustainable agricultural outcomes consistent with agreed national strategies; and
 - provide a framework for cooperative partnerships between communities, industry and all levels of government.³

The audit

- 4.4 ANAO's review of the performance information framework established for the NHT was tabled as Audit Report No. 43, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*. The objective of the audit was to examine and report on the performance information used to support the administration of \$1.5 billion in Commonwealth financial assistance under the Natural Heritage Trust, and compliance with legislative requirements for performance monitoring and reporting.⁴

Audit findings

- 4.5 The audit concluded that the performance information used to support the administration of Commonwealth financial assistance under the NHT had strong design features but significant management and reporting challenges. A key issue was the absence of a finalised core set of performance indicators.⁵

2 Treasurer, 2001-2002 Budget Paper No. 2, *Budget Measures 2001-02*, Commonwealth of Australia, pp. 104-5.

3 ANAO, Audit Report No. 43, 2000-2001, p. 11.

4 ANAO, Audit Report No. 43, 2000-2001, p. 38.

5 ANAO, Audit Report No. 43, 2000-2001, p. 12.

The JCPAA's review

- 4.6 Environment Australia and AFFA agreed to each of the six audit report recommendations. The agencies indicated to the Committee that they had also utilised the practical examples provided in the audit report in the design of the monitoring and evaluation of the NHT extension and the National Action Plan for Salinity and Water Quality.⁶
- 4.7 The ANAO commented that the challenge for the agencies was in implementing management and reporting that matched the strong design features of the performance information process.⁷
- 4.8 At the public hearing, the Committee sought further information from the agencies on:
- additional investment;
 - baseline data;
 - intermediate outcomes; and
 - the mid-term review.

Additional investment

- 4.9 One of the objectives of the NHT is to 'provide a framework for strategic capital investment to stimulate additional investment in the natural environment'. The Committee sought an assessment from Environment Australia and AFFA on whether that objective was being achieved.⁸
- 4.10 AFFA responded that it envisaged that the examination of performance against that trust objective would be one of the key elements of the final evaluation of NHT1 which was scheduled to occur in 2003.⁹
- 4.11 In terms of quantifying the additional investment to date, AFFA stated:

6 S. Hunter, Environment Australia, *Transcript*, 30 April 2002, p. 16.

7 P. Barrett, ANAO, *Transcript*, 30 April 2002, p. 17.

8 *Transcript*, 30 April 2002, p. 18.

9 I. Thompson, Department of Agriculture, Fisheries and Forestry—Australia, *Transcript*, 30 April 2002, p. 21.

... we can quantify the amount of money that the states are putting in and value the in-kind resources that they put in through technical assistance or extension offices. Beyond that, there are local government contributions. Periodically, through surveys, we also try to get an understanding of the commensurate investment individuals put in. For instance ... individual farmers will be investing their own money, either as a group or in their own farm. We obtain that [information] through surveys undertaken by ABARE¹⁰ and the like about how much investment farmers are making in the area of natural resource management.¹¹

4.12 AFFA later supplied the Committee with information on investment in NHT projects:

Information on Commonwealth, State and community investment in Trust approved projects in the 2000-2001 year shows that one-stop-shop programs¹² have been able to lever more than eight-times the associated Commonwealth expenditure on natural resource management, sustainable agriculture and environmental protection.¹³

4.13 Information on investment in Trust projects is obtained from the program administrator database, operated by Environment Australia and AFFA, with data derived from Natural Heritage Trust project application forms. Commonwealth funding is provided for each Trust project approved, as well as additional matching funding provided by the States and the community. The Commonwealth invests cash in Trust projects. The States and the community invest cash and / or in-kind investment, such as volunteer labour and capital items. The value of volunteer items contributed to a Trust project is estimated in dollar terms on project application forms.¹⁴¹⁵

10 Australian Bureau of Agricultural and Resource Economics.

11 Thompson, AFFA, *Transcript*, 30 April 2002, p. 18.

12 One-Stop-Shop programs are: The National Landcare Program, The Bushcare Program, Murray-Darling 2001, Rivercare, Waterwatch, Wetlands, National Reserves System, The Endangered Species Program, and The Fisheries Action Program.

13 AFFA and Environment Australia, Submission No 9, p. 2.

14 AFFA and Environment Australia, Submission No 9, p. 2.

Baseline data

- 4.14 Australia has substantial gaps in the scientific information that enables higher level needs assessment. Many of the scientific assumptions underpinning NHT programs have not been widely tested and have been subject to substantial revision during the course of the NHT. This is the case in regard to the identification of catchment / recharge / discharge and in relation to the density and distribution of perennial cover (ie. trees or other vegetation types) required in a given catchment. In addition, there are doubts as to whether particular interventions are economically viable or sustainable in some places.¹⁶
- 4.15 The audit report noted that:
- The absence of baseline data on environmental condition in much of Australia has also been a major constraint on measuring and reporting on changes and trends in natural resource management and the environment.¹⁷
- 4.16 The Committee asked Environment Australia how it had built performance indicators and an evaluation process for the NHT without good baseline data.¹⁸
- 4.17 In response, Environment Australia drew attention to the national land and water resources audit (NLWRA) which was funded and conducted as part of the first stage of the NHT:
- [This audit] has provided substantial baseline information on a range of natural resource condition indicators, so we do now have much more information than we had at the beginning ...¹⁹
- 4.18 Environment Australia, in response to further questioning acknowledged that most of the NLWRA reports had been released since June 2001:

15 Commonwealth funding and eligible matching funding to be provided by the States, community or other groups, from new and continuing project applications in the 2000-01 funding round is shown in Table 1 at Appendix C.

16 ANAO, Audit Report No. 43, 2000-2001, pp. 44-5.

17 ANAO, Audit Report No. 43, 2000-2001, p. 56.

18 *Transcript*, 30 April 2002, p. 19.

19 Hunter, Environment Australia, *Transcript*, 30 April 2002, p. 19.

... it does not in every case provide absolutely uniform measures, but it does provide a national overview of resource condition, which is a substantial advance on where we were.²⁰

- 4.19 Environment Australia stated that in the standards and targets framework, regions are given up to three years to identify a natural resource condition target. That time allows them to establish at the regional level the baseline against which that target can be set:

... we are requiring the regions to set immediately what we would describe as management action targets which describe, not so much in terms of the resource condition outcome but the activities they will undertake ... to move us towards the natural resource outcomes we are seeking to achieve through these programs. So, while getting a baseline might take a little while, action can be immediate.²¹

- 4.20 The Committee asked Environment Australia and AFFA whether the Australian Bureau of Statistics (ABS) publication, *Measuring Australia's Progress*, was useful in assisting agencies to develop baseline data and to set natural resource condition targets.

- 4.21 The agencies responded that their expectation was that the publication would not be useful because the information gave broad national trends and was not at the appropriate scale or expressed in a useful format for the purpose of regional target setting:

[Regional target setting] requires sub-regional catchment data, specific to particular locations or areas.²²

- 4.22 The agencies indicated that the data used by the ABS appeared to be an aggregation of data from existing sources such as NLWRA and the *Australia State of the Environment Report 2001*:

Those datasets are currently available and being used by Commonwealth, State and regional organisations.²³

20 Hunter, Environment Australia, *Transcript*, 30 April 2002, p. 19.

21 Hunter, Environment Australia, *Transcript*, 30 April 2002, p. 20.

22 AFFA and Environment Australia, Submission No 11, p. 13.

23 AFFA and Environment Australia, Submission No 11, p. 13.

Committee comments

- 4.23 The audit report foreshadowed the potential value of the findings of the NLWRA for future natural resource management and environment programs.²⁴
- 4.24 The core function of the NLWRA is to coordinate collation of data and information to support reporting against nationally agreed indicators that will be used for the National Action Plan for Salinity and Water Quality and NHT2. The Committee notes that the Natural Heritage Ministerial Board has agreed to the continuation of the NLWRA until June 2007.
- 4.25 The Committee notes the potential of the NLWRA to provide better access to quality data for NHT2. Improved needs assessment will enable better judgements to be made about project priorities for NHT2.

Intermediate outcomes

- 4.26 The ANAO recognises that it can be technically difficult to determine suitable performance information when measuring change in environmental conditions. This is because there are substantial timelags between an action (such as revegetation in a catchment) and the result expected (for example, increased biodiversity and / or reductions in the level of the water table to control salinity):
- Where lead times for results are lengthy, milestones and / or intermediate outcomes should illustrate progress towards the anticipated outcomes.²⁵
- 4.27 The ANAO noted that the identification of intermediate outcomes was intrinsic to the design of the original Partnership Agreements and considered that coordinating the tracking of intermediate outcomes should be a high priority for agencies administering the NHT.²⁶

24 ANAO, Audit Report No. 43, 2000-2001, p. 45.

25 ANAO, Audit Report No. 43, 2000-2001, p. 21.

26 ANAO, Audit Report No. 43, 2000-2001, p. 24.

- 4.28 The Committee questioned AFFA and Environment Australia about what information was available in relation to intermediate outcomes of NHT1.²⁷
- 4.29 The agencies indicated that they now had a set of intermediate indicators agreed by the Natural Heritage Ministerial Board in September 2001 and that an evaluation and review of NHT 1 against those indicators would be completed early in 2003.
- ... while we do not have exactly the same techniques in every state we do have consistent ways of reporting them. A consistent set of intermediate outcomes will also enable us to report against the issues as to whether they affect one state or another.²⁸
- 4.30 The Committee wanted to know what information could currently be reported in relation to the significance of what had already been achieved and the challenges that remained.²⁹
- 4.31 In response, Environment Australia referred the Committee to the Mid-Term Review of the Natural Heritage Trust which looked at both the trust as a whole and then the various programs and, to the extent that it was able, provided reporting on the results of the investment through the trust at that time.³⁰
- 4.32 AFFA also referred the Committee to improvements in the draft 2000-2001 NHT annual report, *Helping Communities Helping Australia*, which was still awaiting ministerial clearance at the time of the public hearing.³¹

The Mid-Term Review

- 4.33 The ANAO considered that the 1999 Mid-Term Review was fair and balanced and provided a reasonable basis for management improvement at the time. The Review provided an indication to agencies, the Parliament and the public as to the efficiency and

27 *Transcript*, 30 April 2002, p. 20.

28 Thompson, AFFA, *Transcript*, 30 April 2002, pp. 21, 25; Hunter, Environment Australia *Transcript*, 30 April 2002, p. 26; AFFA and Environment Australia, Submission No. 9, p. 4.

29 *Transcript*, 30 April 2002, p. 21.

30 Hunter, Environment Australia *Transcript*, 30 April 2002, p. 21.

31 C. Willcocks, AFFA, *Transcript*, 30 April 2002, p. 22.

effectiveness of the NHT. It also provided some degree of validation of project performance information.³²

- 4.34 However, the Review stated, among other things, that the NHT was 'poor in the areas of monitoring and accounting for performance'. The critical need for better baseline information on the status and trends of the problems which natural resource management policies were addressing was acknowledged in the Review.³³

NHT Annual Report

- 4.35 The ANAO stated in the audit report that there was an absence of quantifiable progress against the Partnership Agreements and few, if any, trends in economic, social and environmental condition included in the 1999-2000 NHT Annual Report, despite this being the intention of the Prime Minister, Premiers and Commonwealth and State/Territory Ministers in signing the Partnership Agreements:

... the NHT Annual Report is the principal accountability mechanism for the NHT as a whole.³⁴

- 4.36 It noted that reporting to date did not allow the reader to make an informed judgement as to the significance of achievements made, outstanding challenges or overall progress of the NHT against the objectives set out in the Partnership Agreements.³⁵

Committee comments

- 4.37 As the ANAO noted in the audit report, there had been little progress in relation to finalising the design of an overall performance information framework, and consequently, a limited capacity to measure results in concrete terms.³⁶
- 4.38 The Committee considers that there is still little ability to assess the impact the NHT has had overall and what progress has been made towards program goals such as the conservation, repair and sustainable use of Australia's natural environment. Major risks, such as the continued high rate of land clearing in some States and Territories and outstanding challenges such as the declining

32 ANAO, Audit Report No. 43, 2000-2001, p. 25, 79.

33 ANAO, Audit Report No. 43, 2000-2001, p. 80.

34 ANAO, Audit Report No. 43, 2000-2001, p. 14.

35 ANAO, Audit Report No. 43, 2000-2001, p. 92.

36 ANAO, Audit Report No. 43, 2000-2001, p. 54.

application of conservation practices on farms, and how they are being addressed, are not discussed in the 1999–2000 NHT Annual Report. These risks are substantial and have the potential to undermine the effectiveness of efforts made under the NHT.³⁷

- 4.39 The Committee notes that since the Mid-Term Review, agencies are reported to have given greater attention to the strategic focus of the NHT.³⁸ Agencies appear to have taken some initiatives since the audit report to improve performance information on the NHT in the future. Agencies also report improvements to some aspects of reporting in the latest draft NHT Annual Report.
- 4.40 The Committee notes that a set of intermediate indicators has been agreed for the evaluation of NHT1. The Committee has also taken evidence that closer attention has been paid to issues of baseline setting, monitoring and evaluation, and reporting in the planning and development for the implementation of NHT2 and the National Action Plan for Salinity and Water Quality.³⁹
- 4.41 While it appears to the Committee that improvements may finally be underway which could impact positively on future NHT achievements, the inability to adequately measure performance and report on achievements to date was not unforeseen.
- 4.42 The Committee can only reiterate its opinion of 1998,⁴⁰ namely, that there must be concern when large amounts of public funds are committed and programs implemented before problems are adequately identified and performance information systems are in place.

Bob Charles MP
Chairman
19 June 2002

37 ANAO, Audit Report No. 43, 2000-2001, pp. 82, 98.

38 ANAO, Audit Report No. 43, 2000-2001, p. 80.

39 Hunter, Environment Australia, *Transcript*, 30 April 2002, p. 27.

40 JCPAA, *Report 359, Review of Auditor-General's Reports 1996-97, Fourth Quarter*, Commonwealth of Australia, March 1998, pp. 35-6.



Appendix A—Conduct of the Committee’s review

Selection of audit reports

The Auditor-General presented twenty-two reports in the fourth quarter of 2000–2001. These were:

- ❑ No. 31 Performance Audit
Administration of Consular Services
Department of Foreign Affairs and Trade
- ❑ No. 32 Performance Audit
Defence Cooperation Program
Department of Defence
- ❑ No. 33 Performance Audit
Australian Defence Force Reserves
Department of Defence
- ❑ No. 34 Performance Audit
Assessment of New Claims for the Age Pension by Centrelink
Centrelink
- ❑ No. 35 Performance Audit
Family and Community Services’ Oversight of Centrelink’s Assessment of New Claims for the Age Pension
Department of Family and Community Services
- ❑ No. 36 Performance Audit
Municipal Services for Indigenous Communities
Aboriginal and Torres Strait Islander Commission

- ❑ No. 37 Performance Audit
The Use of Audit in Compliance Management of Individual Taxpayers
Australian Tax Office
- ❑ No. 38 Performance Audit
The Use of Confidentiality Provisions in Commonwealth Contracts
- ❑ No. 39 Performance Audit
Information and Technology in Centrelink
Centrelink
- ❑ No. 40 Performance Audit
Management of the Adult Migrant English Program Contracts
Department of Immigration and Multicultural Affairs
- ❑ No. 41 Performance Audit
Causes and Consequences of Personnel Postings in the Australian Defence Force
Department of Defence
- ❑ No. 42 Performance Audit
Bank Prudential Supervision
Australian Prudential Regulation Authority
- ❑ No. 43 Performance Audit
Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust
Department of Agriculture, Fisheries and Forestry
Department of the Environment and Heritage
- ❑ No. 44 Performance Audit
Information Technology in the Department of Veterans' Affairs
Department of Veterans' Affairs
- ❑ No. 45 Performance Audit
Management of Fraud Control
Department of Family and Community Services
- ❑ No. 46 Performance Audit
ATO Performance Reporting under the Outcomes and Outputs Framework
Australian Taxation Office
- ❑ No. 47 Performance Audit
Managing for Quarantine Effectiveness
Department of Agriculture, Fisheries and Forestry - Australia
- ❑ No. 48 Performance Audit
Air Traffic Data Collection
Airservices Australia

- ❑ No. 49 Performance Audit
Information Technology in the Health Insurance Commission
Health Insurance Commission
- ❑ No. 50 Performance Audit
Management of Fraud Control
Department of Family and Community Services
- ❑ No. 51 Performance Audit
Management of Fraud Control
Department of Family and Community Services
- ❑ No. 52 Assurance and Control Assessment Audit
Payment of Accounts
Various agencies
- ❑ No. 53 Performance Audit
Commonwealth Management of Leased Office Property

The Joint Committee of Public Accounts and Audit discussed the above audit reports and considered whether the issues and findings in the reports warranted further examination at a public hearing. In making this assessment the Committee considered, in relation to each audit report:

- the significance of the program or issues canvassed in the audit report;
- the significance of the audit findings;
- the response of the audited agencies, as detailed in each audit report, and
- the extent of any public interest in the audit report.

Following this consideration, the Committee decided to take evidence at public hearings on the following audit reports:

- ❑ No. 33 Performance Audit
Australian Defence Force Reserves
Department of Defence
- ❑ No. 34 Performance Audit
Assessment of New Claims for the Age Pension by Centrelink
Centrelink
- ❑ No. 35 Performance Audit
Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension
Department of Family and Community Services

- No. 43 Performance Audit
*Performance Information for Commonwealth Financial Assistance under
the Natural Heritage Trust*
Department of Agriculture, Fisheries and Forestry
Department of the Environment and Heritage

The evidence

The Committee held public hearings in Canberra on 30 April 2002. The transcript of evidence taken at the hearings is reproduced at Appendix E.



Appendix B—Submissions & Exhibits

Submissions

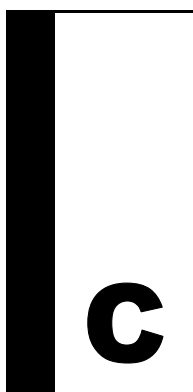
No.	Individual/Organisation
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1	Centrelink
2	Department of the Environment and Heritage
3	Department of Defence
4	Centrelink
5	Department of Family and Community Services
6	Centrelink
7	Australian National Audit Office
8	Centrelink
9	Department of Agriculture, Fisheries and Forestry-Australia
10	Department of Defence
11	Department of Agriculture, Fisheries and Forestry-Australia

Exhibits

No.	Individual/Organisation and Title
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- | | |
|----|---|
| 1. | Department of Family and Community Services, <i>Random Sample Report</i> |
| 2. | Department of Family and Community Services, <i>Media Release – Senator Amanda Vanstone</i> |
| 3. | Department of Defence, <i>Reserve Recruiting Achievement table</i> |
| 4. | Centrelink, <i>Trusts and Companies Attribution Rules</i> |
| 5. | Department of Family and Community Services, <i>The Way Forward</i> |
| 6. | Centrelink, <i>Retirements Income and Assets Statement</i> |



Appendix C—Commonwealth and eligible matching funding

Table 1 Commonwealth funding and eligible matching funding to be provided by the States, community or other groups, from new and continuing project applications in the 2000-01 funding round.¹

	Approved funding	Eligible Matching funding (including \$ and in kind)	
State	Commonwealth \$	State \$	Community \$
ACT	1,337,303	1,355,434	2,124,532
NSW	51,767,955	19,238,359	153,280,267
NT	7,303,443	5,061,078	13,362,352
Qld	37,829,160	23,503,236	607,120,560
SA	25,509,312	14,945,059	580,033,487
Tas	18,491,538	7,169,853	33,392,377
Vic	41,534,661	51,724,641	159,708,060
WA	28,293,697	21,875,530	69,918,241
Sub-total	212,067,069	144,870,190	1,618,939,906
Total	212,067,069	1,763,810,096	

Source: Project application forms entered in the Program Administrator database

¹ Submission No. 9, Department of Agriculture, Fisheries and Forests, Environment Australia, p. 2.



Appendix D—Responses to questions on notice

The following submissions were received from (i) the Department of Defence at 5.19pm on **5 June 2002** and (ii) Environment Australia and the Department of Agriculture, Fisheries and Forestry at 11am on **14 June 2002**. These are reproduced in full.

Department of Defence**QUESTIONS ON NOTICE JCPAA HEARING—ADF RESERVES**

[Asked on] 30 April 2002

Question 1

Senator HOGG—Soon after he became Minister for Defence, Mr Reith asked that there be a regular progress report to Defence's internal audit committee on JCPAA and ANAO recommendations. What has been the progress reported on the seven recommendations made in report No. 33, which we are considering 12 months down the line?

Response

- Both the Defence Audit Committee (on which the ANAO has observer status) and the Defence Committee (chaired by the Secretary) receive regular reports on progress of all ANAO and JCPAA recommendations, which Defence has agreed to implement.
- The ANAO report on ADF Reserves contained 13 recommendations, which are, overall about fifty percent complete. Completion of all recommendations is expected by December 2003.

Question 2

Senator HOGG—The second thing I want to canvass is that there was a Senate inquiry last year by the Senate Foreign Affairs, Defence and Trade References Committee, where evidence was tabled as to the targets for Army Reserve recruiting in various years. I compared that with the targets that appeared in the ANAO audit report, and I find that there are different targets in one particular year. In 1998-99, the target in Army was for 4,235 and enlisted was 2,162, which was a 51 per cent achievement of the target. Yet, if I look at the ANAO report reporting on the same year, the target was 4,465 and the actual was 2,288, so the figures are different. But, in respect of the other years reported in the tables, they were the same. You might need to take that on notice.

Brig. Turner—That is a question we will take on notice.

Senator HOGG—I am looking for consistency of information that you are supplying to different bodies in this parliament. It might not seem much, but—

Brig. Turner—We will take that on notice and get a response. It may be that the definition of what we were counting was different in each case, but we will get a response.

Response

- The figures provided in Table 5.1 of the Report of the Senate Foreign Affairs, Defence and Trade References Committee inquiry into Recruitment and Retention of ADF Personnel are correct. The figures are also consistent with those presented in the Defence Reports throughout the period.
- The ANAO audit report quotes the Defence Force Recruiting Office (DFRO) as its source for the figures provided in the Report. However, DFRO has confirmed that the figures provided to the ANAO are the same as those in Table 5.1. Accordingly, Defence is unable to explain the anomaly in the ANAO figures.

Question 3

Senator HOGG—What difference has come about as a result of the use of the call centre at Cooma, as an adjunct to reserve recruiting?

Col. Stedman—I might need to pass this back to Brigadier Turner but, certainly from my perspective, recruiting, as you would understand, comes under the Defence Personnel Executive. There is no representative from the Defence Personnel Executive here at the moment, and I do not have that level of knowledge.

Senator HOGG—I accept that. But in terms of the numbers that are coming into the reserves, are you seeing any impact as a result of the call centre at Cooma?

Response

- The Defence Service Centre (DSC) in Cooma responds to all general enquires relating to recruiting and makes follow up calls to candidates who do not immediately proceed with their enquiry. With the DSC handling these initial recruiting functions regional recruiting staff are able to focus on their core business of counselling candidates towards Defence careers. It is in this way the DSC contributes to the recruiting effort.
- While the DSC has contributed to the overall improved recruiting achievements it has not impacted significantly on Reserve achievement, nor was it expected to do so.
- Enquires to the DSC are primarily generated in response to DFRO recruitment advertising. Advertising campaigns over the past two years have focused on Full-time (FT) recruitment and ADF 'brand'

recovery. Current advertising is focussed on critical, difficult to achieve targets and Reserve recruitment has not been a high priority. As a consequence the Army Reserve has not had the same recovery of “brand presence” and profile within the community as has been achieved over the past two years with FT recruitment.

- DFRO has developed a new advertising campaign to specifically address Reserve issues. The campaign will be launched at Holsworthy Barracks on Saturday 25 May 2002. The DSC will facilitate the handling of enquires relating to that campaign and enhance the outcome for achievement of Reserve recruits.

Question 4

Senator HOGG—Before you proceed, could you take on notice and give us the figures of retention? I would be interested in them.

Army Response

- As at 31 March 2002 the average wastage rate for Army was 13.36 percent. The graph (Annex A) shows the trends in separation across the Army Reserve from FY 63/64 to FY 00/01.
- It is worth noting that retention is as good as it has ever been over this period. It is also worth noting that the ‘spike’ (73/74) coincides with the end of compulsory National Service and the spike (84/85) coincides with the end of tax free salary for the Defence Reserves (a Government initiative that was soon abolished).
- The smaller spike in 98/99 is largely due to the introduction of the Army Individual Readiness Notice (AIRN) applied across the total force for the first time.

Navy Response

- Navy’s employment of Australian Naval Reserve (ANR) personnel is unlike that of other services, as was noted in the ANAO report.
- The main intake to the ANR is from personnel who transfer voluntarily after serving in the Permanent Naval Forces (PNF). A much smaller number are recruited directly, most of whom are recruited for their specialised skills.
- The majority of personnel renew or retain their engagement in the ANR until their retirement on age grounds, unless there are strong personal factors that cause earlier retirement. There are two other reasons apparent why personnel leave the ANR:

- ⇒ A number of sailors choose not to renew their engagement because they have not worked recently within the ANR. Often this is because they live in a locality where ANR service is not readily available, or their specialisation may no longer be needed (because of restructuring or the introduction of newer technology), or they have been unable to work when Navy needs them.
- ⇒ People move or change their name (e.g. on marriage) without letting the Navy know their new details. (These 'lost contact' people are sometimes regained when other Navy people report their whereabouts or encourage them to make contact.)
- The following table shows the increase in ANR numbers in recent years, illustrating that there is not a retention problem in the ANR.

Personnel in ANR (Total)

	1-Oct-96	1-Jul-97	1-Jul-98	1-Jul-99	1-Jul-00	1-Jul-01	2-Apr-02
Standby	3904	3966	4896	3972	5680	6077	5318
Ready	276	214	180	96	79	4	0
General	1209	1136	1110	988	999	889	875
TOTAL	5389	5316	6186	5056	6758	6970	6193
Total (corrected)	4539	4466	5336	4206	5908	6120	6193

Notes:

- 1 Oct 96 is the first quarter in which DPWE (N) commenced reporting Reserve Data.
- Personnel Management Key Solutions (PMKeyS) Data (April 02) does not include the 455 Officers and the 572 Sailors that are noted as 'lost contact'. This would most likely account for the drop in total Reserve numbers from 6970 in Jul 01 to 6193 in Apr 02.
- An indicative corrected total has been calculated based on the calculated number of 'lost contact' in previous years.

Source: Navy Personnel Quarterly Reports (annual summary for years listed)
by Directorate of Workforce Planning and Establishments

Air Force Response

- The separation rates for the Air Force Active Reserve has remained fairly constant over the past three years at approximately nine percent. This has fallen recently, due to a more liberal Compulsory Retirement Age extension policy application, to approximately five percent; however, this is a short term aberration which will self-correct within 12 months.

- The appropriate figure to use is nine percent separation rate from the Air Force Active Reserve with the note that 50 percent of those leaving the Air Force Active Reserve transfer to the Standby Reserve and remain on the data base for a further five years or until retirement.

Question 5

Mr SOMLYAY—You mentioned before that some time has elapsed since the tabling of the report and also some time has elapsed since you gave us your submission, which I think was in August last year. Can you provide us with some information—and please take this on notice—updating the stage of implementation, if need be, having regard to the original information you gave us? Also, what interaction has there been with the Auditor-General in implementing these recommendations?

Response

- Below is an update of the original information provided in the report tabled in August 2001. This update is in the same format as the 2001 submission and provides the latest detail on each of the recommendations in the ANAO Report. The answer to the second part of Mr Somlyay's question is at the end of the update report.

Recommendation No 1

The ANAO recommended that, in order to improve the effectiveness of ADF Reserves, Defence:

- (a) *Complete the Army Roles and Tasks study at the earliest possible date and ensure that the implementation of new Army Reserve roles and tasks has full regard to the resources available to sustain the proposed changes.*

Defence Response – Agreed.

Outcomes:

- Army continues to advance its work related to the identification and assignment of appropriate roles and tasks to the Army Reserve. This work is complex and is not a work undertaken in isolation. In order to coordinate this effort, Chief of Army has produced a directive that provides his guidance and direction to identify and establish a force structure and capability baseline by 31 December 2003. This will enable Army to provide a sustainable force that meets the Government's intent described in the White Paper.
- This stated intent requires the Army to be able to sustain a brigade deployed on operations for extended periods, and at the

same time maintain at least a battalion group available for deployments elsewhere. To do this, Army is developing rotation models to inform decisions on roles and tasks, force structure and preparedness, mobilisation and expansion requirements and combat force development planning. These models will provide Army with the framework to develop preparedness, sustainment, force structure and training baselines to enable the Army to meet the capability requirements of the White Paper.

- The identification and allocation of appropriate roles and tasks for the Army Reserve are emerging through this ongoing body of work. The Reserve will be required to provide fully trained personnel to Army's frontline force elements to provide round out, reinforcement and rotation forces, as well as generate and sustain a collective capability contribution in accordance with the rotation models and preparedness requirements. In addition the Army Reserve will be required to deliver specialist capabilities and new capabilities needed by Army such as Civil Military Coordination and Reinforcement Holding Units.

- Throughout this process, Army remains cognisant that the overarching strategic requirement is for the endstate to be **effective, affordable and sustainable**.

(b) *Develop a clear statement of Air Force Reserve roles and functions consistent with the Air Force concept of operations. **Defence Response – Agreed.***

Outcomes:

- The role of the Air Force Reserve is to complement and supplement the Permanent Air Force to allow the Air Force to meet the increased operational tempo of contingency operations. The function of the Reserve is to provide trained personnel for the deployment force, to backfill behind deployed permanent members and to provide additional trained workforce to allow for expanded operations. Additionally, the Reserve will form a mobilisation base if required at the higher level of possible conflict.

- The roles and functions of the Air Force Reserve will be formally published once the Wartime Establishment study has been completed.

(c) *Ensure that the roles and tasks developed for Army and Air Force Reserves are based on strategic guidance, complement those of the full time*

component and allow for the limited time availability of part time personnel.
Defence Response – Agreed.

Outcomes:

- As detailed in the response to Recommendation 1(a) Army is developing rotation models to inform decisions on roles and tasks, force structure and preparedness, mobilisation and expansion requirements and combat force development planning to enable the Army to meet the capability requirements of the White Paper. These models will provide Army with the framework to develop preparedness, sustainment, force structure and training baselines for the full-time and part-time complement. Consideration of the part-time complement will also take into the account the time frames applicable to part-time availability.
- The Air Force Reserve roles and tasks currently under development meet the White Paper requirement to allow the Reserve to be relevant to the range of situations from contemporary military operations to major conflict. The construct for the development is the creation of the Wartime Establishment which will identify the workforce required to meet requirements of the worst case scenario which, by default, will cover the range required. From the Wartime Establishment, training and structural requirements can be determined. An initial Wartime Establishment has been rolled out and the terms of reference for the working group has been developed to refine the Establishment figures in conjunction with the Force Element Groups. Consultation is planned to start in May with the first of the visits.

Recommendation No 2

The ANAO recommended that, to better identify the capability provided by standby Reservists, Defence develop an accurate database of standby Reserve personnel that contains details of their suitability for military service and the currency of their skills. **Defence response – Agreed.**

Outcomes:

- **Navy.** A database that includes details of individual Reservists skills and availability was maintained within the Navy Personnel and Establishment System (NPEMS) database. Rather than develop and attempt to maintain a separate database within the Office of Director General Reserves-Navy, it is intended to rely on the NPEMS

data since transferred to PMKeyS and to continue its development within that system

- **Army.** A database of Inactive Army Reserve personnel is maintained at regional and Army Headquarters levels. This database seeks to record the particulars of all members assigned to the Inactive Army Reserve. This database will be transferred to PMKeyS when that system is rolled out.
- **Air Force.** Work in this area is 80 percent complete. The transition to PMKeyS has resulted in some data migration corruption and this is currently being addressed. Work on the refinement of the Standby Reserve database will be on going.

Recommendation No 3

The ANAO recommended that, in order to improve the effectiveness of the Reserves and to complement the capabilities of the full time force, Defence:

- (a) *Complete the validation of the Navy Integrated Program Scheme of Complement and develop the systems required for the effective management of the Australian Naval Reserve. **Defence Response – Agreed.***

Outcomes:

- The validation of the pre 2002 Navy Integrated Program Scheme of Complement (IPSOC) has led to Director General Navy Personnel and Training initiating a wider ranging discussion of the reserve structures, including a review of organisation and processes. One of the outcomes was the recognition that the Reserve structures are by their very nature undergoing constant change and that review or validation will in fact be an ongoing task. The purpose of the validation was to provide a baseline and to that extent validation of the pre-2002 structures is complete. The data from the IPSOC, updated to include 2002/2003 estimated requirements, now forms the basis for an improved total integrated workforce structure. This has been published and is undergoing further detailed fine-tuning at the operational level before full implementation.
 - In addition, better links to funding and improved planning and budget processes will increase the effective management of the Reserves. Continuing rationalisation of Reserve administration will further assist the utility of the PMKeyS database.
- (b) *Rationalise the Army Reserve force structure to a level that is sustainable in the long term, ensuring that it is based on the Army concept of operations,*

*the outcomes of the Roles and Tasks study and the resources available to the Reserve. **Defence Response – Agreed.***

Outcomes:

Army is analysing the capability requirements necessary for Army to meet the Government's requirements described in the White Paper. This is complex and multi-dimensional work.

- The outcome required by the Chief of Army is that the Army structure (both Regular and Reserve) is appropriate for strategic requirements. The structure required for the Reserve component will be dictated by the requirement for the Reserve to deliver a sustainable capability in accordance with the rotation model and preparedness directives. As this structure crystallises through ongoing analysis, Army will embark on a detailed review of the required unit and formation establishments to adjust the force structure to align with the need for the Reserve to generate, deliver and sustain required capabilities.

- (c) *Further develop the Air Force Reserve structure and establishment, based on operational requirements, with the aim of ensuring that the Reserve complements the Permanent Air Force structure. **Defence Response – Agreed.***

Outcomes:

- The method used to develop the Air Force Reserve outlined in the responses to Recommendations 1(b) & (c) will ensure that the resultant structures, employment categories, training and numbers supplement and complement the Permanent Air Force to allow (up to) the maximum utilisation of existing platforms. The resulting structures will also meet combat support requirements for expanded operations and provide an integrated Permanent Air Force / Reserve force.

Recommendation No 4

*The ANAO recommended that Army assess the adequacy of Non-Commissioned Officer numbers for the rationalised Reserve force structure and, if necessary, develop appropriate measures to fill the required establishment, in particular through the attraction of retired Australian Regular Army members. **Defence Response – Agreed.***

Outcomes:

- Army intends to action this recommendation as part of the review of Reserve unit and formation establishments described in the response to Recommendation 3(b). As the unit establishment is determined, then so too will the rank and trade mix necessary to sustain that establishment liability. This will be achieved through detailed rank and trade sustainability modelling. The Chief of Defence Force has directed Head Defence Personnel Executive and Head Reserve Policy, in conjunction with the Services, to develop a proposal to achieve the transfer of greater numbers of Permanent personnel to active Reserve service upon completion of full-time service. A study is currently underway to identify possible incentives to improve transfer rates.

Recommendation No 5

The ANAO recommended that, in order to enhance Reserve training, Defence examine the feasibility of:

- (a) *Developing special employment categories for Reserve personnel, based on sub-sets of the competencies required for full trade qualifications, that can be obtained as a base level qualification within Reserves' available training times, noting that this may be an incremental step towards achievement of a full qualification. **Defence Response – Agreed.***

Outcomes:

- **Navy.** The only categories currently recruited directly into the ANR are Divers and Band Members. Band Members are enlisted on the basis of skills they already have. Training for Divers is phased to allow for incremental achievement of qualification.
- **Army.** Army has introduced additional categories of employment that enable a Reservist to gain an employment qualification at a base level. This is to enable the member to undertake basic tasking in a peacetime unit training environment, while continuing training toward a full qualification standard, eg combat medic as part of the overall qualification of Medical Assistant.
- Wherever possible, the completion of a part of the required training that results in the granting of part qualification, would also result in the granting of an appropriate pay level in recognition of skills and competencies achieved. These limited additional employment categories should not be an endstate for the Army Reserve; rather they are incremental advancement to the achievement of full qualification.

- **Air Force.** Several additional Reserve unique employment categories have already been identified and the occupational specifications for these are being developed within Air Force Training Command. It should be noted that Air Force has had Reserve unique specialisations (Operations Officers) for many years. The training for Reserve unique employment categories will ensure that the competencies are taught and developed to the same level as in the Permanent Air Force, but the Reservist will be trained in fewer competencies than the Permanent member to allow realistic training time frames. Further Reserve unique employment categories will be identified as a result of the restructuring and alternative training mechanisms will be investigated to achieve the required outcome. This will allow the development of a useable capability in the most realistic way but will generate a requirement for slightly more Reserves due to the narrower employment scope. This approach will also allow Air Force to increase direct entry recruiting and achieve realistic training within the time constraints of Reserve availability.
- (b) *Increasing Army Reservist attendance at collective training activities, through measures such as specifying required periods of attendance and/or the payment of a suitable proficiency bonus. **Defence Response – Agreed in principle.***

Outcomes:

- The training required by Reservists is a direct outcome from the roles and tasks required from Reserve units and formations as part of Army's overall capability. These outcomes will prescribe the type, nature and training competencies required of Reservists in both an individual and collective environment. As these outcomes are known, Army will be better able to prescribe the minimum periods of service required of Reservists. This in turn will enable Army to put in place the conditions of service and supporting policy framework to produce an employment package that reflects the exigencies of the type of service to be rendered by a Reserve member.
- The provision of bonuses or other incentives should not be implemented in isolation, but should result from a detailed analysis of all possible measures to sustain a reliable Reserve contribution, such as a proficiency based bonus or recognition of service for medal purposes, based on the achievement of measured competencies rather than on days attended. Before specific measures are implemented, a cost benefit analysis would need to be undertaken.

- (c) *Reviewing recruitment to the Ground Defence Reserve and examining other options to provide this capability, including the use of Army personnel to perform certain aspects of airfield defence. **Defence Response – Agreed.***

Outcomes:

- Changes to the training syllabus have been implemented as a result of a review into the Ground Defence Reserve Group and the first intake on the new syllabus is underway. The outcome will not be known until the end of the course in November 2002. Further consultation with Army has not proceeded at this stage.

Recommendation No 6

The ANAO recommended that, to improve the availability of appropriately trained and deployable Reserve personnel, Defence:

- (a) *Ensure the Services monitor and enforce compliance with the minimum prescribed periods of service. **Defence response – Agreed.***

Outcomes:

- **Navy.** The Directorate of Sailor Career Management has routinely monitored minimum prescribed periods of service for sailors on an annual basis. The Directorate of Naval Officers Posting started this process for officers in January 2001 and will continue the process on an annual basis.
- **Army.** Chief of Army is required to prescribe minimum periods of service to be rendered annually by members of the Army Reserve. This is provided in Australian Military Regulation 487 which stipulates that Specialist Consultants are required to render a minimum of seven days Reserve service annually, and for all other categories of Reserve service, a minimum of fourteen days service annually is required. Army has an extant policy that requires unit commanders to report the non-compliance with this requirement.
- A review of this policy is foreshadowed as part of the consideration by the Chief of Army of the introduction of proposed new categories of Reserve service.
- **Air Force.** The minimum periods of service are specified, in accordance with Air Force Regulations, by the Chief of Air Force, and promulgated as efficiency requirements for the different classes of Reserves. The Reserve Squadrons monitor efficiency requirements and administrative action is taken where members neglect them. In most instances the Reserve members will initiate action when they are no longer able to meet their Reserve obligation, either on a permanent or temporary basis.

- (b) *Ensure individual readiness standards for Navy Reserve personnel are formally promulgated. **Defence response – Agreed.***

Outcomes:

- The development of Individual Readiness (IR) policy for members of the ANR, other than those on Cease Full Time Service (CFTS) for one year or more, is continuing. Development of policy for the five new categories of Reserve service (were they all to be adopted by Navy) may be anticipated to impact significantly on the application of IR policy for members of the ANR.

- (c) *Ensure that, within each Service, the same individual readiness standards apply to active Reserve and permanent members. **Defence response – Agreed in principle.***

Outcomes:

- **Navy.** There are some hurdles to be overcome before IR requirements can be the same as those for the PNF. The maintenance of medical and dental health to PNF standards will be a cost for both the treatment and the payment of salary whilst undertaking treatment. This policy may also be impacted upon by the five new categories of Reserves service (if adopted) and the conditions of service attached. The development of IR policy for members of the ANR is continuing and is a high priority.
- **Army.** Army has recently announced amendments to the policy relating to the Army Individual Readiness Notice, in particular as it applies to members of the Army Reserve. These amendments better reflect the contribution required from the Army Reserve and the consequent requirement for members of the Army Reserve to achieve and maintain individual levels of readiness consistent with their category of service and the readiness notice of their posted unit.
- **Air Force.** Within Air Force the readiness requirements are the same for the active Reserve and the permanent force.

- (d) *Examine the feasibility of developing standards within each Service, specifying the minimum periods of annual service necessary for each Reserve category to achieve and maintain the necessary knowledge and skills required for proficiency at each rank and trade. **Defence response – Agreed.***

Outcomes:

- **Navy.** The majority of ANR members are ex-PNF and transfer to the ANR with proficiency in their rank and trade. Therefore the time

and training required to maintain skill levels is initially minimal increasing over time depending upon the circumstances of the individual. The feasibility of developing a standard is currently being examined. A response will be finalised by end of July 2002.

- **Army.** Minimum periods of service and the requirements of Reserve service will be dictated by the detailed analysis of the Roles and Tasks required of the Army Reserve. This consideration is part of the broader Restructuring the Army / Enhanced Combat Force analysis. As the requirements of the Reserve are crystallised, Army will be in better position to determine the actual and detailed requirements of Reserve service.
- **Air Force.** This area has not been addressed since the ANAO audit. The question of uniformity in the maximum allowable annual service is relatively simple. However, the minimum annual Reserve service requirement for proficiency purposes is more difficult and will not only be dependent on trade and rank, but also on the complexity of the equipment in various areas of employment within each trade and rank. A minimum period of service for conditions of service purposes was set in 1999.

Recommendation No 7

*The ANAO recommended that, in order to match equipment holdings with the training needs of Army Reserve units, Army undertake the proposed review of unit Single Entitlement Documents immediately following the determination of revised unit roles and tasks. **Defence response – Agreed.***

Outcomes:

- Army has commenced a comprehensive review of the Army organisational structure as part of the Restructuring the Army / Enhanced Combat Force analysis. This is to be implemented by a three year rolling program of Single Entitlement Document reviews. The majority of Army Reserve units have been reviewed. Central to these reviews is the requirement to match the equipment entitlement of Army Reserve units with their training requirements.

Recommendation No 8

The ANAO recommended that, to maximise the cost effectiveness of ADF Reserve facilities, Defence:

- (a) *Revise its Reserve facilities policy and plans to take account of any changes to Reserve force structure. **Defence response – Agreed.***

Outcomes:

- Defence will continue to take account of future developments within the Reserve component of the Defence Force as part of the total ADF facilities policy and plans.
- (b) *Consider leasing facilities for Army Reserve purposes (where it is economically viable to do so) to enable flexibility in relocating facilities to accommodate changes in demographic patterns. **Defence response – Agreed.***

Outcomes:

- Infrastructure Division following detailed consultation with Army determines facilities requirements. There is no specific Army Reserve facilities policy. Army's facility requirements and plans are detailed in the Army Facility Plan that informs Infrastructure Division strategic facilities planning. The intent is to enunciate Army's requirements so that Infrastructure Division can meet that requirement in the most cost-effective manner. Where considered appropriate, this may involve a lease arrangement.

Recommendation No 9

*The ANAO recommended that, to provide transparency of the costs of maintaining Reserve forces, Defence annually establish and publish the full cost of each Reserve Service and the capabilities provided. **Defence response – Agreed.***

Outcomes:

- Implementation of this initiative will require development of existing processes and, reporting systems, as well as the maturation of planned financial and management systems and costing models. This combined with the complex usage of Reservists makes costing accuracy and extraction of accountability for such costs difficult.

Recommendation No 10

*The ANAO recommended that Defence develop a marketing strategy and a package of incentives, including appropriate improvements to Reserve conditions of service, as a means of increasing the rate of transfer to the Reserve of full time members on discharge from the permanent forces. **Defence response – Agreed in principle.***

Outcomes:

- Head Defence Personnel Executive and Head Reserve Policy have jointly commissioned a study to identify incentives to achieve the transfer of greater numbers of Permanent personnel to active Reserve service upon completion of full-time service. Marketing strategies and incentive packages are equally applicable to the attraction, recruitment and retention of all Reservists. In the future, different measures will be appropriate for different types of Reserve service (such as for high readiness Reservists). Before specific measures are implemented, a cost benefit analysis would need to be undertaken
- In addition to an overall Defence marketing strategy for Reserves, individual Service strategies are required for direct entry recruiting in order to attract the required numbers and skills for an expanded Reserve capability.

Recommendation No 11

The ANAO recommended that Defence, with a view to improving recruitment opportunities:

- (a) *Examine the feasibility of developing a wider range of recruit training modules designed to accommodate the different circumstances of part time Reservists. **Defence response – Agreed.***

Outcomes:

- **Navy.** Localised recruit training provided on a part time basis and suited to member availability is provided in Brisbane, Perth and Adelaide. Navy has in place modular self-paced training suites interspersed with short residential courses to accommodate Reserve basic and initial employment training. Aspects such as recognition of prior learning and recognition of current competencies, which are transferable from civilian life to the Navy, and the provision of gap training to meet Service requirements are also being examined on a case by case basis. Reserves also have access to full-time Navy courses where their availability allows.
- **Army.** Army has implemented flexible modular options for the recruit training course. Reservists are now able to undertake the six-

week recruit course in two modules. Furthermore, flexible training delivery options are also being considered, or have been implemented, for initial employment and trade training.

- **Air Force.** Air Force has in place modular self-paced training suites interspersed with short residential courses to accommodate Reserve basic and initial employment training. The training is conducted at RAAF schools and at Reserve units. Other avenues are being considered in conjunction with the Reserve restructuring, primarily in the employment training area. Aspects such as recognition of prior learning and recognition of current competencies which are transferable from civilian life to the Air Force, and the provision of gap training to meet Service requirements are also being examined on a case by case basis. Reserves also have access to full-time Air Force courses where their availability allows.

- (b) *Closely monitor the results of the recruiting initiatives developed by individual units and adopt those measures that prove to be particularly successful.* **Defence response – Agreed.**

Outcomes:

- The Defence Force Recruiting Organisation and the Defence Personnel Executive, in conjunction with the Services, are identifying and implementing appropriate strategies that improve the attraction to and service in the Reserves.
- Army has instituted Direct to Unit recruiting. This allows applicants to be directly enlisted into units who are then responsible for preparing the enlistees for attendance at recruit training. This overcomes the situation of individuals waiting outside of the Army system, and possibly losing interest in the Reserves, prior to attending a recruit training course. This initiative has resulted in a significant upsurge in the level of interest shown through inquiries and has also translated into increasing numbers of applicants and enlistments.
- The combination of enhanced advertising, flexible delivery of training and Direct to Unit Recruiting have enabled the Reserve to increase its intake of applicants from all sections of the community and employment demographic.
- RAAF are in the process of establishing Reserve recruiting positions within the Defence Force Recruiting Organisation and bolstering the numbers in the recruiting cells on each Reserve Squadron.

- (c) *Initiate studies on regional demographic factors that influence recruiting success. **Defence response – Agreed.***

Outcomes:

- A survey of ADF Reserve personnel, which examined a wide variety of Reserve issues for all three Service Reserves, has been completed. A report has been published and the initial findings analysed. These findings have provided valuable insights by Reservists as to the factors that influence their decision to join the Reserves.
- The Defence Force Recruiting Organisation has undertaken both qualitative and quantitative research to identify motivators and inhibitors in support of a new marketing campaign for Army Reserve recruitment. This research involved focus groups of potential enlistees and employers in various regional and metropolitan locations.

Recommendation No 12

The ANAO recommended that, in association with any review of conditions of service for Reserve members, Defence:

- (a) *Conduct studies to determine those conditions that are most influential in attracting and retaining Reserve members. **Defence response – Agreed.***

Outcomes:

- The ADF Reserve Survey, which has been published, includes demographic and other information that will inform recruiting, retention and conditions of service policies for the ADF Reserves. Gaining a clear understanding of the inter-relationships of these factors is central to the determination of a suitable conditions of service framework that supports the capability outcomes required by Defence from its Reserve component.
- As these conditions of service and related matters become better defined, and before any initiative is implemented, a cost benefit analysis will need to be conducted.
- Submissions were made to the Nunn Review regarding Reserve remuneration and conditions of service, with further action dependent on consideration of the Review.
- Additional research has been conducted to investigate the attractiveness of various conditions of service, focussing on the new High Readiness Reserve categories of service. This involved 42 focus

groups, involving over 500 personnel from all three Services at locations in both regional and metropolitan locations, as well as the development of a Decision Support System to assist with policy analysis using discrete choice modelling.

- The Defence Force Recruiting Organisation has undertaken both qualitative and quantitative research to identify motivators and inhibitors in support of a new marketing campaign for Army Reserve recruitment.

- (b) *Assess whether the costs of any improvement in these conditions are likely to be accompanied by savings arising from increased retention, and transfers of retiring full time members to the active Reserve. **Defence response – Agreed.***

Outcomes:

- This aspect will be re-examined once Government's response to the Nunn Review submission is received. There are a number of factors that have a bearing on this issue ranging from bonuses, medical and dental treatment, amenities, and the basis for remuneration and employment issues.

- (c) *Consider paying a suitable proficiency bonus to Reservists to recognise the achievement of prescribed standards for readiness, competency and attendance at training as a means of encouraging Reservists to stay in the Reserve force.*

Defence response – Agreed in principle.

Outcomes:

- Paying a proficiency bonus is only one option. While there is some support for this proposal, there are also strong opinions that such bonuses do not achieve the desired results. Consideration of this option, along with other new or revised conditions of service, requires further work. A balanced package of conditions of service that are appropriate for different types of Reserve service (such as for high readiness reservists) needs to be developed. The provision of bonuses or other conditions of service incentives should not be implemented in isolation, but should result from a detailed analysis of all measures considered essential to sustain a reliable Reserve contribution. This consideration will incorporate all aspects of Reserve service including attraction, service and retention. Before specific measures are implemented, cost benefit analyses would need to be undertaken.

- Submissions on the subject were made to the Nunn Review regarding Reserve remuneration and conditions of service, and

further action will be dependent upon consideration of the recommendations of that Review.

Recommendation No 13

The ANAO recommended that, to improve the administration of ADF Reserves, Defence:

(a) *Provide appropriate training for unit personnel on the administration of Reserve salaries. **Defence response – Agreed.***

Outcomes:

- **Navy.** The Directorate of Determinations has agreed to provide training for unit personnel on the administration of Reserve salaries. A set of competencies has already been developed for the delivery of pay and conditions to permanent members. Navy has commenced consultation with the Directorate of Determinations to ensure competencies are developed for the administration of Reserve salaries. This task is currently being scoped.
- **Army.** Training is provided to Army personnel who are employed as Unit Pay Representatives. In addition, related training is provided to those members of the Army who have responsibility for the day-to-day control and management of Army Reserve Training Salaries through the conduct of the Training Day Managers Course. These courses are run regularly throughout the year and may be conducted specifically to support a stated need.
- **Air Force.** Those who are directly involved in administering Reserve pay issues have been given additional assistance where required and a help desk arrangement within the Directorate of Reserves – Air Force is available for any queries and assistance. A new Defence personnel management computer system (PMKeyS) has been introduced and is to be followed by a new Reserve payroll system. Initial training on the new system has been completed and additional training is being planned to update personnel on the system as the necessary changes are implemented.

(b) *Develop a clear and comprehensive policy on the management of Army Reserve training salaries. **Defence response – Agreed.***

Outcome:

- Army has issued a revised Defence Instruction (Army) that enunciates the Army policy in relation to the forecasting, bidding, allocation and use of Army Reserve Training Salaries.

(c) *Exercise tighter control over the recovery of Army issued field clothing and equipment from former members and develop more effective strategies for its recovery. **Defence response – Agreed.***

Outcomes:

- Chief of Army has issued direction to both Land and Training Command to improve control over the recovery of clothing and personal equipment on issue to members of the Army Reserve who are declared as non-efficient / effective. In addition, the importance of equipment recovery from non-effective Army Reserve personnel was reiterated to commanders at the 2001 Pre-Command Seminar and will be included in future seminars.

(d) *Provide appropriate support and training to Reserve staff in relation to the operation of Defence's key computer-based information systems. **Defence response – Agreed.***

Outcomes:

- **Navy.** Training courses are available to Reserve personnel through the normal Navy and Defence training systems, including the change management processes for the introduction of new systems such as PMKeyS.
- **Army.** As part of the introduction of new technologies and information systems (including software), Army utilises the Defence Standing Offer for the delivery of Information System training. Where a major new Information System is to be implemented (such as PMKeyS) then a specific training package will be provided as part of the introduction into service of that technology.
- **Air Force.** Training courses are available to Reserve personnel through the normal RAAF and Defence training systems. In addition, assistance is available to Reserve personnel with specific support or training requirements and a help desk has been established within Directorate of Reserves – Air Force office for any queries and assistance.

Question 6

Senator COLBECK—I have two questions. One you might like to take on notice relates to what Mr Somlyay was saying with respect to your response to the audit report, in particular some of the key dates that were in your response and whether you see that they have been or will

be met. I will give you a couple of examples. Under recommendation 1: in order to coordinate this effort, Chief of Army has produced a directive that provides his guidance and direction to identify and establish a force structure and capability baseline by 31 December 2003. Given that this response was given eight months ago, what is the rate of progression towards that and is that date still achievable? Under recommendation 3: the validation of the Navy Integrated Program Scheme of Complement is under way, category sponsors are currently reviewing unit reports and the process is expected to be completed by December 2001. Was that achieved? They are examples of key dates that you have identified in your response. Are they achievable still or have they been achieved?

Response

- An update to the key dates in the Defence Submission to the JCPAA dated 31 August 2001 is provided in the table below.

Rec No:	Key Dates in the Defence Submission Dated 31 August 2001	Update
1.(a)	Army to '...identify and establish a force structure and capability baseline by 31 December 2003.'	No change to completion date.
1.(c)	RAAF to establish an initial 'Wartime Establishment' by December 2001.	The initial Wartime Establishment was completed in November 2001.
2.	Army to transfer Reserve data to 'PMKeyS when that system is rolled out in the second half of 2001.'	The PMKeyS roll-out for Army is now scheduled for 8 July 2002
3.(a)	Navy to validate the Navy Integrated Program Scheme of Complement (IPSOC), 'to be completed in December 2001'	The initial validation of the IPSOC was completed in 2001. Further development work is expected to be completed by 2003.
	'Naval Reserve will be enhanced with the roll out of PMKeyS to Navy in 2001'.	The PMKeyS rollout for Navy occurred on 28 August 2001.

Rec No:	Key Dates in the Defence Submission Dated 31 August 2001	Update
6.(b)	Navy policy on Individual Readiness (IR) expected to be approved in September 2001.	Navy is awaiting guidance on conditions of service to complement the new categories of Reserve service prior to approval of IR policy. The new categories of service are expected to be introduced in December 2002.
7.	Army to review Single Entitlement Document for the majority of Reserve units 'during the period 27 August to 15 November 2001.'	The majority of Reserve Unit's Single Entitlement Documents were reviewed by 15 November 2001. Ongoing periodic reviews continue.
10.	The 'Nunn Review' due to be completed by the end of August 2001.	The Report was submitted to Government on 21 August 2001.
13.(a)	The initiative for Navy to improve administration of Reserves to be 'progressed as part of the PMKeyS roll-out which is due to occur in Navy towards the end of 2001.'	The PMKeyS rollout for Navy occurred on 28 August 2001.
13.(c)	Army to reiterate 'the importance of equipment recovery from non-effective Army Reserve personnel at the 2001 Pre-Command Seminar to be conducted in October 2001.'	Conducted at the 2001 Pre-Command seminar and will be included in future seminars.

Question 6a

CDRE De Laat—Vice Chair, did you want a comment on the Navy integrated program or are we out of time?

VICE CHAIR—We are actually 10 minutes over. I think that we would in other circumstances be very interested to hear that, but we are on a rather tight schedule today, Commodore. I am very sorry that I will have to conclude the proceedings here and I thank all of our witnesses for appearing today, both from the defence forces and from the ANAO. You can give us, if you are able to, a written submission with the details that

you want to give the committee, but I am sorry that we do not have the time to take it as an oral submission right now.

Response

- The validation of the pre 2002 Integrated Program Scheme of Complement (IPSOC) in turn led to DGNPT initiating a wider ranging discussion of the reserve structures, including a review of organisation and processes. One of the outcomes was the recognition that the Reserve structures are by their very nature undergoing constant change and that review or validation will in fact be an ongoing task. The purpose of the validation was to provide a baseline and to that extent validation of the pre-2002 structures is complete, although the resultant position lists take a different form from the previous IPSOC. The data from the IPSOC, updated to include 2002 / 2003 estimated requirements, now forms the basis for an improved total integrated workforce structure. This has been published and is undergoing further detailed fine-tuning at the operational level before full implementation.

13 June 2002

Ms Margot Kerley
The Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Ms Kerley

**Joint Committee of Public Accounts and Audit Public Hearing 30 April,
2002: ANAO Audit Report No. 43, 2000-01, *Performance Information for
Commonwealth Financial Assistance under the Natural Heritage Trust***

Additional Questions on Notice.

Further to our letter of 21 May 2002, please find attached answers to three additional questions arising from Joint Committee of Public Accounts and Audit public hearing held on 30 April 2002.

Question 6 (response attached) was identified from the Hansard of the hearing, in consultation with the Committee secretariat, at a late stage during preparation of the initial five questions. Questions 7 and 8 were forwarded to us following the hearing by the secretariat at the request of the Committee.

The response represents the joint view of Environment Australia and Agriculture, Fisheries and Forestry-Australia.

Yours sincerely,

Ian Thompson
Executive Manager
Natural Resource Management
Agriculture, Fisheries and Forestry-
Australia

Stephen Hunter
Deputy Secretary
Environment Australia

**ADDITIONAL ANSWERS TO QUESTIONS ON NOTICE
FROM
AGRICULTURE, FISHERIES AND FORESTRY AND ENVIRONMENT
AUSTRALIA
IN RESPONSE TO
JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
COMMITTEE
PUBLIC HEARING, TUESDAY, 30TH APRIL 2002
REVIEW OF AUDITOR GENERAL'S REPORTS, FOURTH QUARTER
2000-01**

Question: 06

Topic: Achievements of the Natural Heritage Trust to date.

HANSARD PAGE: PA21

Senator Watson asked: "What can you report to us now on the significance of what has been done, and the challenges that remain." "We want to know the significance of what has been achieved to date."

ANSWER:

The most complete account of the achievements of the Natural Heritage Trust so far comes from the mid-term review of the Trust conducted during 1999. The mid-term review was undertaken to evaluate achievements of the Trust and to make recommendations for improvement.

The review process commenced in May 1999 and concluded in November 1999. Thirteen consultancy firms conducted the twenty eight separate reviews. Methodologies included desktop reviews; analysis of departments' databases and field visits to selected projects. Overall, some 650 projects were visited.

A summary of the achievements of the Trust, as well as the key issues identified by the mid-term review, is given below, taken from the Government's response to the mid-term review:

Introduction

The Natural Heritage Trust seeks to stimulate activities in the national interest to achieve the conservation, sustainable use and repair of Australia's natural environment.

The Trust was established in 1997 with a total funding budget of \$1.25 billion most of which was to be expended in five years. (This was later expanded to \$1.5 billion over six years). An additional \$300 million was set in perpetuity.

A mid-term review, commissioned by the Trust's Ministerial Board, has reported on the achievements of the Trust and has made suggestions for building on these achievements as well as fine-tuning current aspects of administration.

Consultants conducted 29 independent reviews in all, evaluating the administrative arrangements and performance of 17 Trust programs; including six regional reviews and three thematic studies on dryland salinity and associated vegetation management, urban environment and inland waterways.

The key element in assessing the performance of the Trust is its success in stimulating investment and activity - creating institutional frameworks and developing partnerships for the future. Achievement of the broader goals of conservation, sustainable use and repair of Australia's natural environment will take many years and will also be in response to many factors in addition to the Trust's investments. Consequently, the achievement of these long-term goals will not be measurable in the short-term.

The judgment from the mid-term review is that the Natural Heritage Trust is performing well in meeting its objectives, although there are ways of improving this performance. This has been a significant achievement in view of the complex nature of the Trust, the size of the budget and the large number of participants. No fundamental failings were found in the administration of the Trust, for example in the area of financial accountability.

The evaluations' recommendations are a mixture of measures that might be implemented in the short to medium term to improve the effectiveness and efficiency of Trust program delivery, and strategic measures that will require further development. While a number of recommendations may be adopted in the short term, the major outcome from the mid-term review will be its contribution to the design and development of a new national policy for natural resource management. This national policy will provide the framework for policy instruments, programs and delivery arrangements that will build on the initial six years of the Natural Heritage Trust.

Mid-Term Review

Achievements of the Natural Heritage Trust

“It is important to acknowledge and stress that a great deal has been achieved in a very short time, in terms of implementing the strategies to achieve the overall purpose of the Trust”. (Administrative Arrangements Review)

The reviews found that the Trust has been successful in raising the level of investment in the natural environment and for adding value to the contribution of other community and State government stakeholders. The Commonwealth funding for the Natural Heritage Trust is shown in Appendix A.

‘The programs that constitute the Natural Heritage Trust have been able to deliver a seven-fold increase in Commonwealth expenditure on natural resource management, sustainable agriculture and environmental protection from 1996-97 to 1998-9’ (Administrative Arrangements Review).

‘In the Blackwood region additional expenditure is estimated in the ratio of 3.4:1 although it may be as high as 11:1 if the impact of further expenditure by farmers taking up improved practices and investing their own funds is taken into account’ (Blackwood Regional Review).

‘Through the one-stop-shop process, for every one dollar of Trust funds invested in Bushcare projects, an additional \$2.60 has been contributed from other sources’ (Bushcare Review).

‘The NHT contribution of \$37.6 million has leverage a further \$75.5 million and, by our estimates, it may indirectly influence as much as 80% of the overall annual investment in improved management of dryland salinity by all providers which we estimate to be approximately \$134 million’ (Dryland Salinity and Associated Vegetation Management Thematic Study).

Raising Awareness and Empowering Communities

The Trust has been successful in raising community awareness and empowering communities to create new social networks to facilitate cooperative activity across regions.

‘By giving out funding for specific projects, the government has empowered communities. There is a growing belief that “now we can fix some of our own problems”’ (Central Queensland Regional Review).

‘There is a spirit of cooperation in the air; people realise that to help themselves they have to help each other’ (Blackwood Regional Review).

‘Indigenous communities generally welcome the Program because it recognises that conservation management and indigenous land use can coexist’ (Indigenous Protected Areas Program Review).

‘There is general agreement that the Trust has provided a significant input into community environmental awareness and capacity for action in urban areas. The Trust

has also generated important new urban social networks and change.’ (Urban Environment Thematic Study).

‘The commitment to the Natural Heritage Trust and the Trust programs in community organisations is very high’ (Administrative Arrangements Review).

‘Participants in all regions identified that the Trust stimulated active community participation and facilitated people working together collaboratively’. (Integrated Regional Summary Review).

Institutional Arrangements

The mid-term review found that the partnerships with the States and Territories have to a large extent been effective in delivering the Trust’s objectives. The reviews also note the success of regional approaches and encourage these to be strengthened progressively.

‘Partnership Agreements signed between the Commonwealth and States provide positive benefits to the parties and provide the basis for effective delivery of Trust funds to community groups’ (Bushcare Review).

‘The Partnerships Agreements have been an important innovation in inter-governmental cooperation and collaboration in Australia’ (Administrative Arrangements Review).

‘Important contributions to institutional reforms have also been made but there have been no reforms of regulations on land clearing in Queensland’ (Bushcare Review).

‘Evidence from the Upper South East, Blackwood and Goulburn-Broken regions suggests that effective integration between Commonwealth, State and local government activities in program delivery increases the efficiency and effectiveness of natural resource management investments at regional scale’s (Integrated Regional Summary).

‘The National Landcare Program has contributed to more integrated institutional arrangements for natural resource management. This has included integration of organisational activity at the catchment and regional levels as well as policy and other changes relevant to natural resource management’ (National Landcare Program Review).

‘The Natural Heritage Trust has also been catalytic in encouraging an integrated approach to policy development in relation to natural resource management, environmental protection and sustainable agriculture at both the Commonwealth and State levels. The progressive development and implementation of a regional approach to delivery is also regarded as an essential component of its success’ (Administrative Arrangements Review).

On-ground Outcomes

The Trust has supplemented pre-existing programs such as Landcare with new programs including Bushcare. The consultants found that in doing so, the Trust has facilitated a more comprehensive and holistic approach to natural resource management. This has helped build capacity and

raised awareness of the triple bottom line of economic, social and environmental sustainability benefits.

The long-term goals of the Trust in relation to broad environmental and sustainability outcomes will take many years to be realised. In the short term, measurement of the on-ground achievements of projects funded by the Trust indicates that the Trust projects are achieving their objectives. In the longer term, the National Land and Water Resources Audit (a Trust program) and State of the Environment reporting will provide base-line data to assess landscape scale associated with Trust programs.

Some 300,000 people have been involved with the Trust to date through its twenty-two programs. Highlights of activities from a selection of programs are:

‘The majority of National Landcare Program (NLP) interviewees indicated that there are improvements in the condition of on-farm and off-farm natural resource areas as a consequence of the NLP’ (National Landcare Program Review).

Through Waterwatch Australia some 2200 community groups monitor 5495 sites in 246 catchments across Australia.

Since 1997 the National Reserve System program has purchased 1.3 million hectares.

Five Indigenous Protected Areas have been declared involving 515,382 hectares.

Key Issues raised in Mid-Term Review

This document outlines the overarching issues arising from the recommendations of the mid-term review. These are the key issues that affect the operation of the Trust as a whole. It does not address program-specific issues. Issues specific to individual programs are being addressed by the responsible Minister.

Long-term Government Commitment

The mid-term review concluded that because of the magnitude of overall environmental problems and their impact on the whole economy, the Natural Heritage Trust, or its successor, should be developed as a long-term source of funding.

Ministerial Board Response

The Government is considering its long-term response to natural resource management through a high level Ministerial Group. This group was formed in recognition of the need for a new national framework for protecting, maintaining and enhancing Australia's natural resources, to provide the basis for sustainable production, healthy ecosystems (including healthy rivers and estuaries) and viable rural communities.

The Ministerial group is considering a number of key reports which address issues such as salinity, soil degradation, loss of biodiversity, sustainable land and water management, and acid sulphate soils. Through this process the Government aims to build on the achievements of the Natural Heritage Trust, and to continue to promote more sustainable and more integrated management of soils, water, vegetation and biodiversity.

Government Policy Settings

The mid-term review raises issues related to future directions for Government policy. It is recognised that program expenditure through the Natural Heritage Trust alone will not be sufficient to achieve the Government's environment and natural resource management objectives. Governments need more effective incentives and regulatory regimes to stimulate additional private investment in the natural environment.

Ministerial Board Response

The Commonwealth Government has established a process for developing its future policy and long-term commitment on natural resource management, as discussed above. It is important to note however, that under the Constitution the States and Territories have major responsibilities for the environment. The Commonwealth acts in partnership with the States in delivering the Trust. The development of the Commonwealth's future policy directions is being undertaken in conjunction with the States.

The Trust is developing a range of policy instruments to encourage investment by the private sector in biodiversity, for example rate relief and covenants. However, the potential for applying a more varied policy mix for natural resource management is acknowledged. Information about best practice in these approaches and other innovation is disseminated through seminars, field trips, Trust publications and Natural Heritage Trust training.

Strategic Approach

All Trust programs have strategic plans linking program objectives to the overarching Trust goal and objectives.

The Trust's Goal is:

- To stimulate activities in the national interest to achieve the conservation, sustainable use and repair of Australia's natural environment.

The Trust's Three Key Objectives are:

- To provide a framework for strategic capital investment in the natural environment;
- To achieve complementary environmental protection, natural resource management and sustainable agricultural outcomes consistent with agreed national strategies; and
- To provide a framework for cooperative partnerships between communities, industry and all levels of government.

The mid-term review recommended an overall strategic plan be formulated for the Trust, with clearly and consistently stated purpose, objectives and outcomes and the means for achieving them. Strategic plans for the individual Trust programs should have strong links to the overall plan.

Ministerial Board Response

While some programs did predate the Trust, for example Landcare, each program's objectives are designed to meet the overall Natural Heritage Trust objective of long-term sustainability. Post-Trust strategic outcomes will be decided through the development of the Commonwealth Government's national policy for natural resource management. The Board has reaffirmed the importance of strategic outcomes for the Trust with a greater emphasis on targeted initiatives and a regional approach that involves greater devolution of program delivery to regions where appropriate institutional arrangements are in place. The Board also agreed to give priority to targeted regional-scale initiatives during the next round of decision making for funding. Trust grant guidelines were revised to ensure this emphasis was clear. Facilitators from Bushcare and other programs, non-government organisations, State Assessment Panels and Regional Assessment Panels were briefed to ensure they understood the stronger emphasis on targeted initiatives for the 2000-01 funding round.

Also refer to Regional Approaches.

Partnerships

The Natural Heritage Trust is based on partnerships between the Commonwealth and the States and Territories. As already stated, under the Constitution the States have the major responsibility for natural resource issues. The mid-term review suggested that the partnership arrangements should be further strengthened and extended to more effectively include local government, the community and industry.

Ministerial Board Response

The Board reaffirmed that partnerships remain at the core of the Trust and agreed, in particular, to build on the Trust's links with local government.

However, with only one year of funding remaining it is not considered practical to renegotiate the existing partnership arrangements with the States. Similarly, the scope for creating formal agreements with other sectors is limited. Over time, stronger relationships with local government will need to be managed in cooperation with the States, taking into account the differing legislative and administrative frameworks that operate in each State jurisdiction. The Government is considering these issues in the development of its national policy for natural resource management.

Investment Focus

A number of the consultants' reports express concern that the community grants process may have diluted the potential of the Trust to achieve its overarching objective of establishing self-sustaining and strategic investments. While the community focus has been necessary to achieve commitment to the Trust's objectives, it has resulted in funds being spread over a large number of smaller projects that may have less impact than strategically directed larger projects. Against this background, some of the review reports propose that the Trust should have a stronger investment focus, with larger, more integrated projects and the development of investment sharing frameworks. An investment framework would require a wider range of activities in addition to on-ground works, including enhanced regional strategic planning.

Ministerial Board Response

The Trust is now actively seeking more devolved grants and targeted initiatives. The Board wrote to State Ministers in 1999 to advise them that it was seeking proposals for significant larger-scale initiatives. Support for small, community driven projects has been a deliberate strategy but now needs to be balanced with the advantages provided by larger initiatives.

The Board acknowledged the importance of a strong investment focus for the Trust's activities. The Board agreed that greater effort was required to attract further private sector investment and corporate support. There may be potential to link these efforts with other government and corporate investments, for example the Australian Greenhouse Office is identifying industry associations and sectors which need to, and can be, engaged in partnerships in natural resource management.

Regional Approaches

The thrust of recommendations is for the Trust to strengthen its regional approach, and increase support for planning and implementation at the regional or catchment level.

Ministerial Board Response

The Ministerial Board reaffirmed its support for targeted initiatives and regional-scale projects addressing issues of major regional concern. The Trust already places importance on regional-scale activity as a mechanism for delivery of its objectives.

In strengthening the regional approach, the variability between each region's capacity to plan and manage must be recognised. Integrated regional projects will be further encouraged, as will the use of devolved grants for the implementation of small, local projects whose objectives are consistent with the overall regional plan.

In devolving funds and responsibility, it will be important to continue to empower community groups. Representative structures in the community organisation and effective management will be important in maintaining community support. Trust facilitators and participants in the Regional Assessment Panels have been reminded of the need to ensure regional plans are taken into account in project assessments.

Program Structure

A number of reports noted the large number of separate programs that fall within the scope of the Trust. The concern was that administrative barriers could prevent achievement of integrated Trust goals by encouraging single-focus projects. The Administration Arrangements Review proposed including the Coasts and Clean Seas programs within the One-Stop-Shop structure, to promote the integration of the programs within the Trust.

Ministerial Board Response

The Board considered that major changes to the program structure at this stage of the Trust would result in increased costs and time delays in its final eighteen months. However it is important to note that the One-Stop-Shop process was designed to present potential proponents with a single entry point to Trust programs, and encourage cross-program integration. There is scope to encourage further integration within the present structure and this potential is being investigated. Possible opportunities include access to other government programs such as Green Corps and Work for the Dole with Trust projects for additional human resources. This has been welcomed by Local Government proponents in particular. In the longer term, program structure will be considered in the context of the future national policy for natural resource management.

Governance

The Administrative Arrangements Review suggested, that for management of future natural resource programs, a single administration unit with a chief executive officer would provide a core of unity, a sense of overall purpose and direction, and would lessen some of the administrative complexities evident in Trust delivery.

Elements in the current administrative arrangements under the *Natural Heritage Trust of Australia Act 1997* are the Natural Heritage Ministerial Board and the Natural Heritage Trust Advisory Committee. There are also a number of joint implementation groups established under a Memorandum of Understanding as well as program-specific advisory committees that advise Ministers.

Ministerial Board Response

The strength of current arrangements is the effective cooperation between Environment Australia and Agriculture, Fisheries and Forestry, Australia.

The benefits of creating a single administrative unit at this stage in the life of the Trust are not considered sufficient to justify the cost and disruption in project assessment and delivery.

The Board is paying particular attention to the issue of governance in the process of considering the Commonwealth's goals and future engagement in the national policy for natural resource management.

Communication

Communicating about the Trust and its objectives to the public and stakeholders was noted as a shortfall. In the first year of the Trust, few resources were committed to communicating beyond application information. In addition, the Administrative Arrangements Review recommended that the various streams of activity be combined into a single communications strategy with emphasis on promoting the investment focus of the Trust.

Ministerial Board Response

A number of strategies have been implemented such as the training initiative 'Building Regional Capacity', a pilot scheme, which has as one of its aims to foster and promote communication networks. Communication with stakeholders will also be continued through existing mechanisms such as the Natural Heritage Journal, information signs on Trust projects, the Trust information video, the Trust web-site that contains all 29 reports from the mid-term review, and an annual communications strategy for the Trust encompassing, for example, television community announcements, magazine articles and the Trust Report Card.

Capacity Building

Consultants identified the need for participants in Trust activity to have the right technical skills, support infrastructure and access to knowledge to undertake their tasks effectively. Their proposals included greater emphasis on technical support for projects, improved strategic links with research agencies and support for training and information dissemination.

Ministerial Board Response

The Board acknowledged and reiterated the importance of capacity building to promote the community's ability to achieve Trust outcomes and enhance the community's ability to sustainably manage Australia's natural resources in the longer term. The Trust has been successful in raising awareness and empowering communities. This is shown by the

number of project proposals received, the range of proponents, the level of strategic planning, and the number of training initiatives for regions and catchments. In particular, the Trust has encouraged indigenous community involvement through the employment of Indigenous Land Management Facilitators and has devolved funds to organisations such as Greening Australia whose role has included encouraging the community in new forms of environmental works, for example the establishment of seed banks.

Monitoring and Evaluation

Performance indicators for Trust programs are included in Partnership Agreements with the States. Consultants for the mid-term review were asked to comment on and recommend refinements to these indicators, as well as develop an overall indicator framework for the Trust. Two consultants noted that a review of performance indicators would assist in better monitoring and evaluating of the Trust's performance.

Ministerial Board Response

The Board reiterated the importance of monitoring and evaluation for the management of the Trust and agreed to refine processes for monitoring and evaluating the Trust's achievements.

However, the difficulty of undertaking a systematic assessment of both short-term and long-term goals against performance indicators is evidenced by the often poor quality of data that was supplied in project application forms and progress reports. Reasons for this poor data quality include the complexity of the initial application form (since refined) and the requirement to report on proposed and actual annual outputs. Community participants in the Trust frequently do not have the time and experience to supply data. Seasonal constraints or late receipt of funding can mean reporting against agreed outcomes can be delayed. A key issue for the future is the development of a simple and robust set of performance measures, which provide information at several levels, from project level to the national level, but which do not place an unfair burden on community participants.

Coordinators and Facilitators

The review identified that issues to be addressed for the Trust's 1000 facilitators and coordinators include clarification of roles and accountability structures, competency skills needed and employment conditions, including length of tenure. Consultants' proposals to address

these issues include providing clearer definitions of coordinator and facilitator roles, supporting facilitator networks and providing technical advice. Formation of a single Trust human resources program was also suggested, as were improvements to training and cooperation between facilitators employed by individual programs, for example Bushcare or Landcare.

Ministerial Board Response

The Board agreed that greater opportunity for the Trust's facilitators and coordinators to participate in training and skills development would increase the success of Trust projects.

This is already taking place in the form of the existing Building Regional Capacity – Trust short course, currently being piloted around the country.

Administration Issues

Administration issues noted in the mid-term review include reducing the cost of administration, introducing best management practices in administration, improving management information systems, simplifying the procedures for small grants and synchronising the Trust budget cycle with those of the States.

Ministerial Board Response

The Board noted that administration costs are well below the benchmarks of other comparable programs. It is agreed that, given that the Trust is due to finish by 30 June 2002, it was preferable to fine tune existing administrative arrangements than to introduce wholesale changes.

Significantly, no evidence of fraud or misappropriation was found by the mid-term review - a reflection on the quality and dedication of Trust participants.

Synchronisation of the Trust budget cycle with those of the States is not seen as practical as it would require major changes to the Trust yearly cycle (dates for application, assessment and commencement of projects) for the 2001-02 funding round.

One-Stop-Shop Assessment Process

Recommendations related to introducing a single application form for projects regardless of program funding, simplifying the assessment of small projects and improving the skills and capacity of Regional Assessment Panels.

Participants currently outside this process were surveyed about the adequacy of the current arrangements, which they indicated were working well. Given this, the remaining community grants programs outside the One-Stop-Shop were not likely to benefit from moving to a single application form for the remaining funding round.

Ministerial Board Response

The Board noted that a single guide and application form is already in place for the ten One-Stop-Shop grant programs which represent nearly 75 per cent of overall Trust expenditure and agreed not to include programs currently outside the One-Stop-Shop.

Indigenous Participation

Two consultants' evaluations found that funds allocated to Aboriginal landowners were much less than expected given the proportion of Australia they own or manage. It was suggested that this might be due to the complexity of the application process, insufficient understanding of the link between culture and environment, difficulties in raising matching contributions and lack of documentation of priorities for the management of many Aboriginal lands.

Ministerial Board Response

The National Landcare and Bushcare Programs now jointly support a group of Indigenous Land Management Facilitators. This initiative is aiming to break down some of the barriers identified in the mid-term review. The February 2000 meeting of Natural Heritage Trust stakeholders considered this issue and recommended that the State and Territory governments develop a more appropriate mechanism for indigenous groups to access funds from the Trust. The representation of indigenous interests in the RAP/SAP process has increased through greater participation by the Indigenous Land Management facilitators.

Thematic Issues

Dryland Salinity and Associated Vegetation Management

The Dryland Salinity and Associated Vegetation report noted that the Trust aimed to achieve long-term improvements in the management of the problem. It was noted that the scale of dryland salinity issues means that the problem cannot be addressed by the Trust alone and needs to be complemented by other programs and policies.

Ministerial Board Response

Dryland salinity is one of the major problems facing the Australian continent and the issue is now prominent in the developing national policy for natural resource management.

A high level Ministerial taskforce is addressing these issues for development of a post-Trust agenda.

Inland Waterways

Improving the health and management of Australia's inland waterways is a significant national issue. The Inland Waterways report found it difficult to determine if the Trust and other investments are adequate, or the extent to which they could have had any impact on the processes driving the decline in many of Australia's aquatic systems, given the short time that has elapsed since the commencement of the Trust.

Ministerial Board Response

It is noted that a number of these recommendations refer to issues that are outside the responsibility of the Trust and are being addressed in other fora or through the national policy for natural resource management. For example, the report noted that:

There are many complex social, economic and ecological issues that are central to river health, and that appear to be beyond the capacity of the existing Trust programs to resolve.

The Urban Environment

The report concluded that most of the larger environmental initiatives supported by the Trust had already been planned or were operational at State level before the Trust commenced and would continue without Trust funding. However, the Trust was found to have brought the implementation of projects forward. The report found that the Trust had been particularly strong in the areas of innovation in relation to urban bush and coastal dunes and headlands; national standards and integrated policies for urban air quality; and market approaches to waste management and management of urban river systems.

Ministerial Board Response

It is noted that a number of these recommendations raise broad urban policy and planning issues that are beyond the scope of the Trust, for example "[that] the NHT develop and promote a national set of environmental codes of conduct for the business sector".

The Way Forward

The mid-term review produced over 600 recommendations. Many recommendations will require further consultation with community and State government stakeholders in the context of developing the national policy for natural resource management. A few recommendations were judged not to have practical or theoretical merit. Many recommendations are being implemented. These relate to setting clearer strategic directions, improving planning processes, promoting regional approaches, developing a stronger investment focus for the Trust, and improving communications. Other recommendations, however, have been judged to require extensive administrative and policy changes, which, at this stage in the life of the Trust, would impose significant cost and disruption. These recommendations are being used to inform the development of the natural resource management strategy.

Final Evaluation of the first phase of the Natural Heritage Trust

An update on the achievements of the Trust since the mid-term review will be provided by the final evaluation of the first phase of the Trust. The final evaluation will begin in July 2002, with the final report expected in the first half of 2003. The final evaluation will include:

- A list of aggregated outputs for phase 1;
- Assessment against key intermediate outcome indicators for phase 1;

The intermediate outcome indicators for phase 1, as approved by the Natural Heritage Ministerial Board, are set out in question 3 of the earlier response to questions on notice, dated 21 May 2002.

- A final evaluation, focussed on the three Trust objectives.

The three Trust objectives that are the focus of the final evaluation of phase 1 of the Trust are:

1. provide a framework for strategic capital investment, to stimulate additional investment in the natural environment;
2. achieve complementary environmental protection (including biodiversity conservation), sustainable agriculture and natural resources management outcomes consistent with agreed national strategies;
3. provide a framework for cooperative partnerships between communities, industry, and all levels of government.

Question: 07**Topic:** Baseline Data**Hansard Page:** NA

The Committee asked: Are your agencies aware of the ABS Publication (cat. No. 1370.0, 2002) Measuring Australia's Progress? If so, how useful is it in helping your agencies to develop baseline data and in setting a natural resource condition target?

Answer:

Departments are aware of the ABS publication (cat No. 1370.0, 2002). It is very recent and we are in the process of examining the report to determine its possible use and value. Our expectation is that it will not be useful in developing baseline data and setting natural resource condition targets for regions because:

1. The information in the publication is presented as headline indicators, giving broad national trends.
2. The information in the publication is not at the appropriate scale nor expressed in a useful format for the purpose of regional target setting, which requires sub-regional catchment data, specific to particular locations or areas.

The data that the ABS is using for the publication appears to be an aggregation of data from existing sources such the National Land and Water Resources Audit and the Australia State of Environment Report 2001. Those datasets are currently available and being used by Commonwealth, State, and regional organisations (see question 8 below).

Question: 08**Topic:** Baseline Data**Hansard Page:** NA

The Committee asked: What actual data, reports or other information are you using to develop and maintain baseline data?

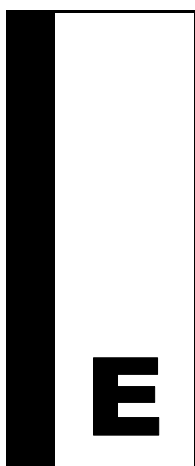
Answer:

The setting of regional targets is a requirement for accreditation of regional natural resource management (NRM) plans under the National Action Plan for Water Quality and Salinity (NAP), and the Regional Delivery component of the extension to the Natural Heritage Trust (NHT).

The minimum set of matters for which regional targets must be set are included in the National Framework for Natural Resource Management Standards and Targets, as agreed by the Natural Resource Management Ministerial Council on 3 May, 2002. Only accredited regional NRM plans are eligible to receive NAP or NHT regional component implementation funding. Regional natural resource management plans without targets may be accredited for the purposes of NAP or Trust funding where the plans provide for targets to be set within three years. This allows time for the region to ascertain the condition of its natural resources, and establish resource condition baselines.

The current state of resource condition within many regions will be the baseline against which progress towards achieving regional targets will be measured. In some places where work is well advanced, such as parts of the Murry-Darling Basin, baselines and targets have been in place for some time. These existing baselines and targets are being incorporated into the regional target setting process under the NAP and NHT.

Regions will obtain the data they require to establish baselines and set targets for natural resource condition from a variety of sources. The National Land and Water Resources Audit has compiled data on a number of natural resource issues, such as dryland salinity, water, and land cover (vegetation), covering a significant area of Australia. Regions can access these datasets via public access websites such as the Australian Natural Resources Atlas, the Australian Natural Resources Data Library, and the Australian Spatial Data Directory. State government agencies also have data that may not yet be available nationally through those sources, but are available for regional target setting. In many cases, the available data may not be at the appropriate scale or accuracy, or data may not exist yet, in which case regions will need to undertake the necessary work to collect the data, establish their baselines, and set their targets. The funds to undertake that work may be provided to regions through regional foundation funding under the NAP or NHT regional component.



Appendix E—Transcript of evidence