

Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality

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Introduction

Australia's environmental and productive natural resources are among its most precious assets. As well as providing water, food and clothing, natural resources provide habitat for our unique plants and animals and the landscape that helps to define our image of Australia. In 1996, the Australia: State of the Environment report commented that [European settlement] has resulted in the introduction of many practices that... 'have radically altered and degraded much of the Australian landscape'.¹

The way that natural resources are used and managed is fundamental to the long-term economic viability of the agricultural sector as well as the wellbeing of current and future generations of Australians.² To better manage the use of Australia's natural resources, the then Australian Government³ implemented two natural resource management (NRM) programs, the:

- Natural Heritage Trust (NHT); and
- National Action Plan for Salinity and Water Quality (NAP).

The *Natural Heritage Trust of Australia Act 1997* established the NHT, which was to be a comprehensive, integrated response to *conserve, repair and replenish Australia's natural capital infrastructure*.⁴ The Department of the Environment, Water, Heritage and the Arts (Environment) has been responsible for delivery of two phases of the NHT. The first phase, NHT 1 (1996–97 to 2001–02), allocated \$1.5 billion to natural resource management (NRM) and environmental activities. The second phase, NHT 2 (2002–03 to 2007–08), allocated \$1.3 billion for NRM activities. A third phase, NHT 3, with potential funding of \$2 billion, is planned to commence in 2008–09.

The NAP was established in 2000–01. Funding of \$700 million across eight years was allocated to the Department of Agriculture, Fisheries and Forestry (DAFF) for the program. The goal of the NAP is to address dryland salinity as well as improved water quality. The NAP has not been renewed beyond June 2008; its focus will be subsumed within NHT 3.

The regional delivery model

A regional focus was selected by the Australian Government for the NHT 2 and the NAP as it offered a framework for NRM planning and action that suited the specific circumstances of different regions and allowed the social, economic and environmental dimensions to be considered in an integrated way. Further, a regional focus was also considered by the departments to be the most suitable for determining priorities, sharing investment arrangements and for coordinating actions over a large area involving many people. Over half of the administered funds allocated to the NHT 2 and the NAP to June 2007 (that is, some \$1 billion) have been spent through 56 regional bodies across Australia.

Bilateral agreements were signed between the Australian Government and the State/Territory governments, setting out the governance, financial management, monitoring and reporting responsibilities of each party. The State/Territory governments have signed partnership agreements with the relevant regional bodies regarding the delivery of these responsibilities. Regional bodies have developed plans and investment strategies to show how the programs will be delivered 'on the ground'. These plans and strategies were designed to be accredited and subsequently approved at the national and State/Territory level in order to receive ongoing funding.

1 State of the Environment Advisory Council, *Australia: State of the Environment*, Department of the Environment, Sport and Territories, 1996, p. 4–55. Subsequent reports have been published in 2001 and 2006.

2 Standing Committee of Agriculture and Resource Management, *Managing Natural Resources in Rural Australia for a Sustainable Future: A discussion paper for developing a national policy*; December 1999, p. 1.

3 Where the audit findings refer to the Australian Government or Australian Government Ministers this relates to the period prior to the Federal Election held on 24 November 2007.

4 *Natural Heritage Trust of Australia Act 1997*, s. 3, p. 3.

Audit scope and objectives

The objective of this audit was to assess and report on the administration of the regional delivery of NHT 2 and the NAP.

The scope of the audit encompassed both Environment and DAFF, including the Joint Team of staff from both departments working together under a common management structure for the delivery of both programs. The audit focused on:

- the implementation of the regional delivery arrangements;
- governance and financial management for regional delivery; and
- monitoring, evaluation and reporting on the programs' performance.

Previous audits

The Australian National Audit Office (ANAO) has examined the effectiveness of the administration of the NHT and/or NAP programs in four previous audit reports:

- Audit Report No.36, 1996–97, *Commonwealth Natural Resource Management and Environment Programs*;
- Audit Report No.43, 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*;
- Audit Report No.17, 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*; and
- Audit Report No.31, 2006–07, *The Conservation and Protection of National Threatened Species and Ecological Communities*.

The implementation of the relevant recommendations and findings from these audits are discussed in the key findings and in the following chapters of this report.

Conclusion

The regional delivery model for the NHT 2 and the NAP was based on consideration of the views of a wide range of stakeholders and the lessons learned from the program evaluations conducted by the Joint Team comprising staff from both Environment and DAFF. The rationale for regional delivery was to be more strategic and results-focused at a regional scale. This was supported by well designed bilateral agreements between the Australian Government and the States/Territories and a comprehensive planning and accreditation process based on the ‘best available’ science. Given the scale of the NRM challenge across Australia and past experiences, it was a reasonable model in the circumstances.

Progress in implementing improvements in administration following ANAO Audit Report No.17 2004–05⁵ has been comprehensive and well focused on significant risks. The Australian Government has been well supported by State Governments and regional bodies in improving administration. Nevertheless, significant areas of non-compliance by State agencies with the bilateral agreements have been identified and will require attention leading into NHT 3. In particular, attention will need to be given to addressing the transparency and accountability of Australian Government funds managed by the States/Territories—particularly in terms of meeting the auditing requirements of the agreements and offsetting unspent funds remaining in State or Territory holding accounts.

The quality and measurability of the targets in the regional plans is an issue for attention and is being addressed in some States. This should be considered nationally—especially as the absence of sufficient scientific data has limited the ability of regional bodies to link the targets in their plans to program outcomes. Dissemination of good practice and, in particular, the documentation of the cost effectiveness of actions funded through the program will need to be a priority for NHT 3.

There is evidence that activities are occurring ‘on the ground’. For example, Environment’s *2006–07 Annual Report* commented that the programs have ‘helped to protect over eight million hectares of wetlands, have treated over 600 000 hectares of land to reduce salinity and erosion, and have involved some 800 000 volunteers in on ground conservation work’.⁶ However at the present time it is not possible to report meaningfully on the extent to which these outputs contribute to the outcomes sought

by government. There are long lead times for national outcomes and delays in signing bilateral agreements did not help this process. The absence of consistently validated data, the lack of agreement on performance indicators and any intermediate outcomes has significantly limited the quality of the reporting process.

Overall, the ANAO considers the information reported in the DAFF and NHT Annual Reports has been insufficient to make an informed judgement as to the progress of the programs towards either outcomes or intermediate outcomes. There is little evidence as yet that the programs are adequately achieving the anticipated national outcomes or giving sufficient attention to the 'radically altered and degraded Australian landscape' highlighted in the 1996 *Australia: State of the Environment Report*. Performance measurement has been an ongoing issue covered by three previous ANAO audits since 1996–97 and should be a priority for attention in the lead up to NHT 3.

To assess progress made in this area, the ANAO will consider conducting a follow-up audit reporting to Parliament on progress towards achieving outcomes for NHT 3. Such an audit will be considered within the context of future Audit Work Programs.

5 Australian National Audit Office, Audit Report No.17, 2004–05, *The Administration of the National Action Plan for Salinity and Water Quality*.

6 The then Department of the Environment and Water Resources, *Annual Report 2006–07*, p. 5.

Key findings by chapter

Implementation of the regional delivery model (Chapter 2)

While not explicitly outlining the costs and benefits of alternative models, the rationale for the delivery of the NHT2 and NAP was well supported by research and the results of evaluations. The documentation highlights the broad consultation and consideration that went into the design of the regional model. Australian and State/Territory Ministers at the time supported a more devolved, regional delivery approach for NRM programs.

The management of risks

At the commencement of the NHT 2 and the NAP there were formidable risks to the achievement of intended outcomes. In particular, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), in a report to the Joint Team in 2004, commented that the success of programs like the NHT depends on the knowledge and expertise of regional bodies. The Joint Team has introduced a range of measures to improve knowledge management. The NRM website <www.nrm.gov.au> includes the mosaic mapping project, which show, by region, activities and some of the lessons learned across different regions and landscapes. Community forums and the network of NRM facilitators and coordinators have also assisted in disseminating information. In addition, the Joint Team in association with Land and Water Australia has been working on improving knowledge management.⁷

However, many of these initiatives are being pilot tested or in the early phase of roll out. This makes it difficult to form an audit opinion at this stage. Nevertheless, the regions surveyed by the ANAO commented that there is still much to be done to improve the dissemination of lessons learned at the regional level. The ANAO considers that documentation of the economic costs and benefits of different ‘on-ground’ actions needs to be substantially improved. There is still little information as to what options are best to deliver value for money outcomes. This leaves substantial residual risks at the end of the NHT 2 and the NAP and leading into the NHT 3.

Bilateral agreements

Agreements were negotiated and signed bilaterally between the Australian Government and each State/Territory Government to provide the management framework for the NHT 2 and the NAP. The agreements were well designed and provide a good basis for agreements under NHT 3. However, negotiations were often protracted and, consequently, this affected the timeliness of the implementation of the programs. The delays in reaching agreement had unfortunate consequences for some regions in existence prior to NHT 2. Staff members were laid off and regional bodies were downsized. This is a risk under the transitional period for NHT 3. However, the Joint Team has indicated that they are aware of the problem and are working with the States and Territories to ensure that agreements are in place as soon as possible for NHT 3.

Negotiations over the content of the bilateral agreements also resulted in some differences between agreements. For example, the agreement signed between the Queensland and Australian Governments includes a special arrangement where, unlike all other States/Territories, the Queensland Government is not required to offset any interest earned on funding. To avoid any suggestion that some States/Territories have been given preferential treatment, it is desirable that all provisions are as consistent as possible in the bilateral agreements for NHT 3.

Regional planning and accreditation

Currently, 55 of the 56 regions delivering the NHT and NAP have plans accredited by the Australian Government.⁸ The regional model has not suited all regions as illustrated by the difficulties in establishing a regional body and an accredited plan for the Cape York region. However, in the majority of cases where accreditation has occurred for regional plans, there have been shortcomings. In 2004, the CSIRO noted that regardless of whether or not proposed targets were underpinned by scientific knowledge and experimentation, there was little information forthcoming that suggested that targets, even if met, would be sufficiently robust to arrest or reverse the decline in catchment condition in many areas. Regions surveyed by the ANAO in 2007 also commented on the lack of adequate scientific data. Of the 50 regional bodies that responded, only 12 (24 per cent) agreed that the level of scientific knowledge and technical data available had been adequate for developing plans, investment strategies and measurable regional targets. An analysis of the accredited regional plans of eight regional bodies by the ANAO found that 80 out of 163 resource condition targets identified in the plans did not meet the stated criteria in terms of being measurable or having a specific timeframe.⁹

In New South Wales, Victoria and South Australia there are processes in train to improve the targets set out in regional plans. The ANAO recognises that it was no easy task to develop high quality regional plans in the absence of quality data or prior research. However, tackling NRM challenges such as dryland salinity require strong collaborative efforts at all levels (national, regional and local) if resources are to be well targeted and used effectively. It will be important that all regional plans in all States and Territories are of sufficient quality to provide an assurance that program outcomes are likely to be achieved from the Australian Government's potential allocation of \$2 billion for NHT 3.

Regional investment strategies

In terms of the allocation of funds under the programs, over \$1 billion has been outlaid for regional investments through the NHT 2 and NAP to June 2007. The investment was directed towards activities such as salinity mitigation works, revegetation and rehabilitation of native vegetation, pest animal and plant controls, improving rivers and waterways and recovery plans for threatened species. There is documentation to support reasons for investment decisions. These decisions are based on merit and linked to the criteria. Nevertheless, the ability of regions to quantify what the investments will achieve against program outcomes is constrained by the absence and general nature of some targets and the lack of relevant monitoring and/or modelling systems. Consequently, it is difficult to compare value for money from investments across regions. Where the impact on resource condition is identified by regional bodies, the expected results were often low (frequently less than one per cent of the longer-term resource condition target). This suggests that the achievement of some outcomes is going to be a long-term process—potentially over two hundred years at current progress.

Governance and financial management (Chapter 3)

National review of governance arrangements

The governance arrangements for the regional delivery of the NHT 2 and the NAP are inherently complex and challenging because of the number of organisations involved in service delivery. However, administrative arrangements have been subject to substantial review and improvement since the issue was raised in the ANAO's Audit Report No.17, 2004–05. Improvements have included formalising arrangements, independent evaluation and the development of a regional governance checklist. The Australian Government's NRM Joint Team, State agencies and particularly State Audit Offices have all played a part in improving administration for the delivery of funding for NRM.

Improving governance arrangements

Processes such as the Business Improvement Review in Queensland have enabled the effective evaluation of regional administration structures and practices. State agencies and State audit offices in Western Australia, New South Wales and Victoria have also assisted in improving governance in regional bodies. In addition, regional boards have demonstrated that they are monitoring the use of NHT/NAP funds. For example,

when a case of fraud was detected, it was the regional board that identified the problem and took the appropriate action.

While significant improvements have been made, substantial risks remain, which will require ongoing management efforts by all relevant parties. In particular, the integration of the local NHT investment stream (through programs such as Envirofund which is delivered directly from the Australian Government) could be strengthened. Currently, outputs from the local investment stream are not provided to regional bodies. This means that regions are effectively unable to incorporate the program results from local investment stream programs into their regional monitoring and reporting processes. The Joint Team has indicated to the ANAO that it is currently working closely with regions to develop a process for providing outputs data to them in a meaningful and useful format.

Financial management

Good cash flow management practice is important for the success of the programs. The correct timing of payments is crucial as payments made too early are an unnecessary cost to the Australian Government. However, payments made too late risk delaying the program results and put considerable strain on the financial capacity of regional bodies that are dependent upon external program funds.

The bilateral agreements require the Australian Government and State/Territory governments to pay the cash funding contributions into a Single Holding Account (SHA) prior to being forwarded to regional bodies. Each SHA is administered by the relevant State or Territory agency but oversighted by the relevant Joint Steering Committee (JSC) comprised of Joint Team and State/Territory officials. Consequently, the Joint Team as well as the State agency is required to authorise payments from the SHA to the regions.

Significant delays in payments continue to be an ongoing issue at the time of this audit. In 2005–06, the elapsed time from the start of the financial year for payments into the SHAs varied from 53 days for Tasmania to 271 days for Victoria. These delays have also contributed unnecessarily to an insolvency risk for 13 regional bodies. The Joint Team is proposing to introduce more streamlined financial management practices for NHT 3. These measures are likely to improve on current practices. However, the ANAO considers that stronger monitoring is needed to manage and mitigate the risk of payments being delayed to the regions and funds accumulating in State/Territory accounts.

Compliance with the financial provisions of the bilateral agreements

The bilateral agreements contain a range of principles and controls relevant to payments made through the programs. These include transparency in financial transactions, control of payments through the JSCs, requirements for audited financial statements and offsetting unspent funds. Significant breaches of the bilateral agreements have been identified. These include examples of particular States/Territories:

- not maintaining a transparent SHA;

- releasing program funds from the single holding account without appropriate approvals;
- not providing audited financial statements (acquittals) to indicate that funds have been spent for their intended purposes;
- retaining unspent NHT 1 funds (valued at \$6.1 million) rather than offsetting them against NHT 2 allocations; and
- not disclosing interest earned from a single holding account or its use in accordance with the bilateral agreements.

In this light, it is evident that these matters should be addressed and stronger controls implemented to achieve greater compliance with the bilateral agreements for NHT 3. Otherwise, the value and credibility of bilateral agreements is compromised. There would also be benefit in standardising the presentation of regional bodies' financial statements for comparability and analysis and improved disclosure regarding the use of Australian Government funds.

Monitoring, evaluation and reporting on performance (Chapter 4)

Significance of monitoring, evaluation and reporting

Performance monitoring, evaluation and reporting are essential for determining the extent to which agencies' outputs and administered items contribute to the achievement of the program outcomes. ANAO audits in 1996–97, 2000–01 and again in 2004–05 found weaknesses in the monitoring and reporting of the performance of the NHT. In summary there was no effective outcomes reporting. The departments agreed to the recommendations to develop and implement measures, systems and processes to improve performance in this area.

Framework for measuring the program's performance

In 2002, the NRM Ministerial Council endorsed a *National NRM Monitoring and Evaluation Framework*. The framework is generally sound and provides a reasonable basis for measuring and reporting on performance. However, the implementation of the framework has been stalled by the lack of agreement to appropriate performance indicators. Of the 61 indicators identified, only seven have been agreed by Australian Government and State/Territory officials. As a result, there is insufficient information to make an informed judgement as to the progress of the programs towards either intermediate or longer-term outcomes. The indicators are not expected to be in place until June 2008—the completion date for NHT 2 and the NAP—after which baseline data is intended to be established. Consequently, the overall impact of the programs on NRM will not be known when the NHT 2 and NAP are finished in June 2008. Full implementation may take longer again.

Implementation of the framework

In the 2000–01 audit, the ANAO found significant weaknesses in relation to the validity of the output data reported. The data was a mix of actual and anticipated results. In 2004–05, the ANAO also noted that performance information still included estimates of performance. Since that time the Joint Team has developed a

standardised output reporting system that reflects actual data from the regions. This is a positive development since 2004–05.

However, the data validation is limited to a desk-top review. From a sample of nine regions, the ANAO concluded that regional bodies do engage in some form of validation. This ranged from spot checks to independent audits of a sample of projects. Greater assurance of the accuracy of output data would be provided if all regional bodies validated the output data to a consistent standard before it is reported to the JSC and the Joint Team. Guidance from the Joint Team to the regions on matters such as the statistical validity of the sample, the level of acceptable risk and the appropriate methodologies for validating particular types of outputs prior to the introduction of NHT 3 would contribute positively to the quality of data being reported.

Currently, there are many different systems in place in the States/Territories and regions with the inherent duplication and inefficiency problems this brings.

During the course of the audit the Joint Team committed \$2.2 million to a Building Better Data project with the intention of improving performance reporting processes for NHT 3. The project also aims to improve information management systems for performance reporting by reviewing and streamlining performance reporting. This will include an assessment of the appropriateness of data currently collected, the effectiveness and efficiency of information management systems currently employed and the use of data. The ANAO considers that priority should be given to effectively implementing this initiative and having it in place prior to the introduction of NHT 3.

It is particularly important that progress against outcomes is measured and reported, and lessons learned documented. Establishing clear and precise business rules would assist in better integrating systems and reducing the transaction costs of performance reporting.

Program evaluations

The evaluations of key aspects of the NHT and NAP programs were fair and balanced and provided a good basis for improving the efficiency of the delivery of the programs. However, the evaluations were not able to report conclusively on the effectiveness of NHT 2 and the NAP. At the time of the evaluations there was little evidence that there has been any substantial movement towards landscape scale repair and replenishment of natural resources as envisaged by the NHT. Nor was there evidence of significant progress towards preventing, stabilising and reversing salinity trends as envisaged by the NAP. From the evidence reviewed as part of this audit, this is still the case which suggests that stronger targeting of NHT 3 towards the highest priorities and most critical national assets is necessary to achieve measurable results.

Performance reporting

Reporting has largely focused on activities and outputs rather than progress towards outcomes. Further, DAFF's *Annual Report 2005–06* reported intended outcomes rather than actual results. The NHT annual report for 2005–06 was tabled in

November 2007—eleven months after the statutory deadline. The Joint Team has indicated that this delay is not likely to be repeated in subsequent years.

In 2000–01, the ANAO recommended the implementation of intermediate outcomes¹⁰ as an integral part of accountability arrangements for the NHT and future NRM and environment programs. This was agreed by the Joint Team. However, at present, the use of intermediate outcomes is at a very early stage and is not currently operational for reporting purposes. Through the *Building Better Data* project, the Joint Team intends to develop and trial a ‘performance story reporting’ methodology for reporting on outcomes. A performance story report will summarise a ‘slice’ of an NRM project indicating what a program has achieved as well as how the achievements were made.

The intention from the Joint Team is that ‘performance stories will provide a summary of the impacts and progress towards outcomes’. A key priority for the Joint Team will be to demonstrate the cost effectiveness of NRM actions and report to Parliament through this process. This is particularly important where investment has been directed to the conservation of critical national assets such as wetlands of international importance, the soils and water quality in the Murray-Darling Basin or protection for the Great Barrier Reef from pollution.

The ANAO recognises the difficulties faced by the Joint Team in establishing such a process at this point in time given that the regional bodies have a diverse range of systems focused on addressing their own reporting needs. However, such a process will be necessary if any meaningful results are to be reported for NHT 3. The ANAO considers that a staged approach may best address the practicalities of implementation of such a framework. The first step must be reaching agreement on reasonable and measurable indicators. This could be followed by a pilot study in regions that have already undertaken data verification and outcomes measurement and reporting. When the performance monitoring and reporting model is providing a reasonable assessment of outcomes, it could be extended for the remaining regions.

¹⁰ Intermediate outcomes are stepping stones towards the ultimate outcomes. They focus on the medium term—that is, one to five years.

Summary of Environment and DAFF response

The Department of the Environment, Water, Heritage and the Arts and the Department of Agriculture, Fisheries and Forestry broadly accept the key findings of the report, noting that there have been further developments since it was prepared, including the development of a comprehensive outcomes-based reporting framework and a revised Monitoring, Evaluation, Reporting and Improvement national framework which support practice change in line with the key recommendations. The report acknowledges that ‘progress in implementing improvements in administration since the previous Audit report’ has been comprehensive and well-focused on significant risks but that further work in this area is required leading into the next Natural Heritage Trust (NHT 3) program. Issues raised in the ANAO report and its four recommendations will continue to be taken into account in any future arrangements for regional delivery of natural resource management programs.

The regional delivery model is still relatively new and the Departments in partnership with state and territory governments and regional bodies have continually sought to improve the model over time. Given the scope of this exercise and the large number of players involved this will take time. Actions are currently underway to improve monitoring and evaluation of outcomes and sharing the knowledge legacy of the programs, such as strengthening the measure of intermediate outcomes through utilising reports by outcomes (Performance Story Reports).

The Departments note that the audit findings are positive with regard to the general approach to regional delivery with targeted recommendations to improve certain aspects that will benefit future regional delivery of natural resource management programs. The Audit report notes that program delivery arrangements have evolved and are now, on the whole working well. However, the Departments agree that there are some areas that could be strengthened. The report is, overall, a reasonable assessment of the strengths of current arrangements and those areas which require further attention.

Recommendations

The ANAO made four recommendations designed to improve the delivery of the regional model through better management of risks, greater transparency and efficiency in the management of funds, closer compliance with bilateral agreements and more accurate reporting to Parliament. All four recommendations were agreed with the agencies.