

Integrated Finance & Performance Framework

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Background and Context

There has been a growing trend in Australia, and internationally, towards policy models that emphasise the importance of partnerships between government, not for profit and corporate sector organisations in the delivery of publicly funded services for the community.

More recently, the importance of linking services within local communities so that complex and inter-related problems are addressed with a holistic response has been recognised.

In Tasmania, the Department of Health and Human Services purchases a range of community based services from more than 240 non government organisations. This is a significant outlay and requires an integrated finance and performance framework to provide community confidence that the investment represents best value for money, and is contributing to improving the health and welfare of Tasmanians.

Current funding agreements have been developed over time. This has created processes, policies and services which are

now no longer consistent with contemporary purchasing or service delivery models, particularly for recurrent grants that have been in place for many years.

In August 2008 the Office for the Community Sector engaged Riley and Riley to conduct a review of the finance and performance management of grant funded services. The review was conducted in close consultation with all stakeholders, and the report provided by the consultants in December 2008 broadly reflects an agreed approach to the future administration of grant funds by the Department of Health and Human Services.

The report received endorsement by the Ministers for Health and Humans Services in February 2009, and planning is now underway to roll all service agreements into the new framework by 1 July 2009. The table below summarises the recommendations and proposed departmental response.

Proposed Response to Recommendations

Recommendation	Response	Decision
1. Combine the Quality and Safety Standards Framework and the Integrated Finance and Performance Framework into a single "OCS Integrated Performance Framework".	<p>The Quality and Safety Standards Framework and Integrated Finance and Performance Framework have, to date, been progressed concurrently by the Office for the Community Sector.</p> <p>However, it has become apparent that there is a high degree of overlap and alignment between the two Frameworks, particularly in identifying and mitigating risk. Several elements of the Finance and Performance Framework which address risk (see recommendations nine and fourteen) incorporate elements of the Quality and Safety Framework.</p> <p>A Business Case proposing that the Quality and Safety Framework be progressed over a three year time period, including an indicative budget, is to be considered by the Departmental Executive.</p>	Accepted subject to the approval of the Quality and Safety business case by Departmental Executive.
2. Incorporate the Quality and Safety Standards Framework and the Integrated Finance and Performance Framework as key elements within the Tasmanian Compact or Partnership Agreement.	<p>The proposal to develop a Compact or Partnership Agreement by July 2009 is included in the Office for the Community Sector Strategic Plan 2008 - 2010.</p> <p>An integrated Framework will provide the Office for the Community Sector and the Community Sector with clear direction on reforms being implemented, and the defining characteristics of future working relationships. Including the Framework in a Compact or Partnership Agreement will assist in clarifying the roles and relationships between the Department and the Sector.</p>	Accepted.

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<p>3. Develop a “CSO Communications Strategy” to address the issues associated with the proposed Tasmanian Compact, the Quality and Safety Standards and Integrated Finance and Performance Frameworks, and the other initiatives and reforms affecting the community sector in a consistent manner and from a “whole of DHHS” perspective.</p>	<p>The Office for the Community Sector recognises the importance of good communication at all levels and in all directions during periods of change and reform.</p> <p>A multifaceted and comprehensive communication strategy has been developed by Office for the Community Sector and includes regular community forums and consultations, newsletters, individual meetings, liaison with intermediaries such as Peak Bodies, and an internet portal (communityExpress)</p> <p>The communication strategy is continually updated, and will be reviewed in the light of this report.</p>	<p>Accepted.</p>
<p>4. DHHS discuss with Treasury the inclusion of a breakdown of the budgeted Grants and Subsidies Expenses with Budget documentation to:</p> <ul style="list-style-type: none"> • enable the identification of the proposed use of grants; • assist with accountability by enabling a comparison of the budget to actual expenses at the end of the financial year; and • enhance disclosure to the community sector. 	<p>Including a breakdown of budgeted Grants and Subsidies expenditure in Budget Papers or the Annual Report is not appropriate because that reporting would be at too low a level compared to other expenditure types.</p> <p>However, the alternative of examining the means for providing additional disclosure outside budget documentation is possible and should be explored.</p>	<p>The alternative should be accepted in principle, subject to further analysis.</p>
<p>5. The OCS and DHHS Finance Unit establish an improved reporting structure for all grant funds that will enable grants to be identified and reported across all DHHS Cost Centres.</p>	<p>It is agreed that the current systems do not allow for the easy identification and reporting of grant funds management by DHHS Operational Units. The Report notes that the Office for the Community Sector has already identified the need to improve the recording and sharing of grants information across the Department.</p> <p>The new grants management system should allow for the better reporting of all grants, including the ability to analyse information across a range of variables using a range of filters to produce timely and flexible reporting that facilitates evidence based decision making.</p>	<p>Accepted.</p>
<p>6. The OCS continues with the proposed grants management system as planned, and that specific controls over data integrity and continuity of operations be considered within the systems design, implementation and maintenance.</p>	<p>As above (recommendation 5), it is agreed that the current systems do not allow for the effective reporting of grant funding. This recommendation will lead to better reporting and more effective management of funding arrangements.</p>	<p>Accepted.</p>

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<p>7. The <i>Contract Review Committee and Procurement Handbook</i> is updated to reflect the new Treasurer's Instruction TI 709 <i>Grants Management Framework</i>; the Delegations; the requirements of the <i>Disability Services Act 1992</i>; the altered DHHS organisational structure; and Integrated Finance and Performance Framework.</p>	<p>Ensuring Departmental instructions are in line with Tasmanian Treasury Instructions, DHHS Financial Instructions; Delegations; and the requirements of the Disability Services Act 1992 is essential to good governance.</p>	<p>Accepted.</p>
<p>8. The Framework principles be incorporated into the Tasmanian Compact or Partnership Agreement including identifying the roles and responsibilities of DHHS and CSO's. These roles and responsibilities will need to be agreed between the parties as part of establishing the Compact or Partnership Agreement.</p>	<p>The principles proposed in the draft report should be taken as a starting point for discussion with the community sector.</p>	<p>Accept in principle.</p>
<p>9. The OCS in conjunction with DHHS Operational and Corporate Units develop a 'Business Case Template' to ensure a consistent and structured assessment of whether and how to form an agreement and to document decisions about confirming funding; defining services; determining the method of agreement; and approval to proceed</p>	<p>The recommendation to develop a Business Case Template is a fundamental requirement of the integrated finance and performance framework development. The Business Case Template is the building block for assessing approval to proceed; initiating the funding agreement; managing the funding agreement; and finalising the funding agreement (see pages 33-37, and summary diagram page 4.</p> <p>The proposed methodology is consistent with Treasurers Instruction TI709 Grant Management Framework; Tasmanian Government Project Management Guidelines; and the DHHS Contract Review Committee and Procurement Handbook.</p>	<p>Accepted.</p>
<p>10. The OCS develop a 'Risk Assessment Diagnostic Tool' to ensure a consistent and structured assessment of organisational (including financial sustainability) and service delivery risk factors including:</p> <ul style="list-style-type: none"> • CSO organisational governance and management; • service type risks and Quality and Safety Standards; • service volume and capacity risks; and • the value of the funding agreement. 	<p>The report recommends that the integrated finance and performance framework include the identification of risk and a scaled response to risk based on community sector organisation characteristics, service type and volume, and the value of the funding agreement.</p> <p>A similar approach is proposed in the Quality and Safety Standards Framework proposed for the community sector, which is to be considered by the Departmental Executive.</p>	<p>Accepted.</p>
<p>11. The term 'Funding Agreement' is adopted as the term that describes the form of agreement for funding grants to CSOs. This term will embrace and exchange of letters, a short form of agreement or a long form of agreement</p>	<p>The achievement of consistent terminology to distinguish grant funded services from purchasing arrangements will reduce confusion and increase clarity of purpose for funded services provided by community sector organisations.</p>	<p>Accepted.</p>

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<p>12. The Framework enable longer-term agreements of up to three year length, as long as the agreement is supported by a satisfactory business case and risk assessment.</p>	<p>Funding Agreements are currently structured according to the business needs of the Operational Units, including consideration of the ongoing availability of funding. The length of funding Agreements varies between months to three years.</p> <p>The advantages of longer funding timeframes allow community sector organisations and the Department to focus on long term outcomes rather than short term inputs is accepted.</p>	<p>Accepted.</p>
<p>13. The Framework enables:</p> <p>A quarterly in advance payment based on planned service delivery for the quarter and adjusted for actual services delivered in the following quarter; and</p> <p>where service delivery is not a practicable basis for making payments, equal quarterly installments paid in advance; and</p> <p>A single advance payment of up to \$100,000 for an individual funding agreement, subject to a satisfactory business case and risk assessment.</p> <p>The OCS monitor and report on compliance with payment terms and identify the number and value of payments not made on time. Quarterly reporting should include publication of performance through the DHHS communityExpress website.</p>	<p>This recommendation is supported in principle, however, the current requirements of the Tasmanian Supply Bill mean that the Department receives 1/12th of the Budget for the month of July. The proposal to make a single up front payment of between \$100,000 to \$150,000 will need to be analysed to understand the implications this may have on cash flow for this period. Further discussions are required with DHHS Finance before progressing this recommendation.</p> <p>As outlined in the report, current payments are generally scheduled at quarterly payments of 40%, 20%, 20%, 20%. A change to equal quarterly payments may have consequences for community sector organisations, and therefore this recommendation should be discussed with the sector before implementation.</p>	<p>This recommendation should be Accepted in Principle, subject to further consideration and consultation with the Sector.</p>
<p>14. The OCS monitor and report on compliance with payment terms and identify the number and value of payments not made on time. Reporting should include publication through the DHHS communityExpress website.</p>	<p>This recommendation effectively establishes the mechanism for a key performance indicator for the Department in response to complaints from community sector organisations regarding delays in payment and the stress that this causes to organisations. Demonstrating an outcome and client focus is an important strategy for the Office for the Community Sector and operational units.</p>	<p>Accepted.</p>
<p>15. The Framework enable differing acquittal arrangements depending upon the value of the grants funds involved, the purpose for which the funds are to be used, or level of risk associated with the funding agreement.</p>	<p>It is agreed that developing a simplified acquittal process depending on risk to the Department should be progressed.</p>	<p>Accepted.</p>

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<p>16. The OCS, in conjunction with DHHS Operational Units and a representative sample of CSOs, prepare a baseline study across all programs that fund CSOs to establish:</p> <ul style="list-style-type: none"> the information currently being requested of CSOs; the purpose for which the information is used; overlaps or gaps in the information requested; and a minimum data set for future reporting requirements. 	<p>As noted in the report, there is a high demand from both operational units and community sector organisations for meaningful and consistent information on service activity, minimum data sets, and outcomes achievement.</p> <p>There are a number of minimum data sets currently used or proposed that relate to community sector services, and achieving alignment with these is important. It is also important that data collection both meets the needs of service deliverers and does not impose an unsustainable burden of them.</p>	<p>Accepted.</p>
<p>17. DHHS Operational Units, in consultation with key stakeholders, develop and maintain outcomes and outcome performance information for all programs involving funding to the community sector</p>	<p>One of the major objectives of the integrated finance and performance framework is to develop a strong outcomes focus supported by performance information for all programs involving funding to the community sector. This recommendation is consistent with that objective.</p> <p>The discussion included in the report does not currently reflect the complexity of developing measurable outcomes within some service areas of the Department.</p>	<p>Accepted, with recognition that discussion with Operational Units and the Community Sector regarding appropriate implementation and timelines will be required.</p>
<p>18. The OCS should quality assure funding agreements to ensure that agreements adequately reflect DHHS Program outcomes in a consistent manner, with appropriate and adequate information to support Program Evaluation.</p>	<p>The Office for the Community Sector is well positioned to meet this recommendation as a result of its capacity to undertake horizontal assessments across all service Agreements and operational units</p>	<p>Accepted.</p>
<p>19. The OCS, in conjunction with DHHS Operational Units, Corporate Units and CSOs develop and maintain a consistent set of 'service type' descriptions to be used when describing services within funding agreements.</p>	<p>Historically, grant funding has been progressed by individual Operational Units with minimal coordination. This has resulted in multiple service types, many of which are very similar in character, and lack of consistency in service specification.</p> <p>The development of a consistent set of service type descriptions will lead to greater service coordination, minimisation of duplication, improved standardisation, streamlined administration and better costing of services. More efficient administration and management of funding agreements will inevitably lead to administrative savings which can be redirected to service delivery.</p>	<p>Accepted.</p>

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<p>20. The OCS undertake quality assurance reviews of business cases and funding agreements to ensure they adequately address the outcome performance and service delivery quality and quantity standards, including the Quality and Safety Standards Framework requirements appropriate for the nature of the services being funded.</p>	<p>This recommendation is consistent with the Quality and Safety Standards Framework proposed for the Community Sector. A business case to implement the Standards Framework has been referred to the Departmental Executive through the Human Services Executive.</p>	<p>Accepted, pending the outcome of the Departmental Executive consideration of the Quality and Safety Standards Framework business case.</p>
<p>21. The Framework enable funding agreements with two streams of funding identified for the specific purpose of:</p> <ul style="list-style-type: none"> • service delivery funding; and • capacity building and innovation funding. 	<p>The current approach to grant funding has evolved through an uncoordinated series of grant agreements establishing funding without overarching coordination. As a result, individual agreements do not have a clear and consistent basis for funding levels and there is a lack of transparency across the system.</p> <p>This has meant that it is relatively easy to set funding precedents, and relatively difficult to change them once set.</p> <p>The establishment of unit costing for specialist services is the responsibility of individual program areas which have the specialist expertise and knowledge to identify the appropriate service elements, and the required resources to ensure quality service provision.</p> <p>The separation of funding for service delivery and funding for capacity building allows for greater transparency in the setting of unit costs for organisations that are diverse in their structure and organisational maturity. Adopting this recommendation will mean greater consistency in setting funding levels for service delivery while maintaining flexibility in relation to capacity building and innovation.</p>	<p>Accepted.</p>
<p>22. Funding agreements state the basis of funding and its relationship to service delivery, or if funding is a contribution to the cost of the CSO.</p>	<p>Historically, grant funding was frequently a simple contribution by Government towards the costs of service delivery being incurred by a charitable organisation. As funding for service provision moves beyond the delivery of charitable support there is increasing expectation among community sector organisations that the full cost of service delivery will be met.</p> <p>This recommendation will further increase transparency by specifying the basis for funding.</p>	<p>Accepted.</p>

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<p>23. Funding agreements based on service delivery specify the treatment of surpluses or deficits due to changes in quantity of service delivery.</p>	<p>As outlined in the report, the treatment of grant funding surpluses and deficits is one of the frequent topics of complaint by community sector organisations.</p> <p>As unit costing is introduced it could be anticipated that contract management will focus on appropriately funding outputs and providing mechanisms to adjust payments for overachievement or underachievement on targets. However, service quality, including the achievement of outcomes, must still be a prime consideration.</p>	<p>The report contains limited discussion to support this recommendation, and it is recommended that it be Deferred for further consideration.</p>
<p>24. The OCS implements the interim steps necessary to enable future benchmarking of costs. These steps will include:</p> <ul style="list-style-type: none"> • developing a consistent set of 'service type' descriptions; • defining levels of quantity and quality for services currently being funded; • defining performance measures consistent with the Quality and Safety Standards Framework; and • undertaking baseline costing surveys. 	<p>Funding for existing agreements is primarily based on historic allocations adjusted by indexation. Historically based funding has significant limitations, particularly lack of transparency, reliance on precedent, and lack of clear linkages between funding and outcomes that address current client needs.</p> <p>The Department, through reform processes, is moving towards a unit cost approach to funding. The Human Services Group Reform Implementation Unit is seeking a consultant to develop a service pricing mechanism that will apply to disability service, family support services, out of home care and the service gateway.</p> <p>However, unit pricing will not suit all circumstances, and this is particularly evident where services are delivered across a variety of settings throughout the State where factors such as demand, travel time, and economies of scale will reduce the ability to deliver the same serve at an average cost.</p> <p>Benchmarking of costs referenced across service type, quantity and quality (including outcomes) will assist in understanding cost drivers so that an evidence based approach to funding models can be developed.</p>	<p>Accepted.</p>
<p>25. The OCS to monitor the progress of, and identify any development from the Reform Implementation Unit service pricing study, planned for 2009.</p>	<p>This recommendation will assist in the development of a Departmental wide policy on costing services.</p>	<p>Accepted.</p>

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<p>26. Delegations for funding agreements are altered to better reflect the nature of the agreements.</p> <p>The following threshold limits are recommended to apply to the approval of a business case and risk assessment to proceed to a funding agreement:</p> <ul style="list-style-type: none"> • an allocation of less than \$100,000 - approval by Operational Unit CEOs and Directors; • an allocation of \$100,000 and more, but less than \$250,000 - approval by Operational Unit CEOs and Directors after obtaining the agreement of the Director of the OCS, with reporting to the CRC; and • an allocation of \$250,000 and more - recommended by the Operational Unit CEOs and Directors to the CRC for CRC approval to proceed. <p>The following threshold limits are recommended to apply to the execution of a funding agreement (or any document that enters the Crown into a commitment) for a grant. If the annual funding under the funding agreement is:</p> <ul style="list-style-type: none"> • less than \$250,000 - the delegates for signing funding agreements for grant allocations are the Operational Unit CEOs and Directors; • \$100,000 and over up to \$250,000 – the delegate for signing funding agreements for grant allocations is the Director of the OCS; • \$250,000 and over up to \$5,000,000 - the delegate for signing funding agreements for grant allocations is the Secretary; and • \$5,000,000 and more - the delegate for signing funding agreements for grant allocations is the Minister. 	<p>As noted in the report, the risks associated with commitment of expenditure under funding agreements with community sector organisations are different to those associated with general contracts and procurement.</p> <p>Funding arrangements with the community sector are typically partnership based with known organisations, of an ongoing or recurring nature, delivering specific services addressing community need, and subject to monitoring and financial accountability. These conditions are not generally addressed in procurement arrangements.</p> <p>In relation to grant funding decisions, it makes administrative sense to apply delegations to the lowest practical level so that funding agreements are structured to optimally meet the service needs of clients, and high quality partnerships are achieved.</p>	<p>Accepted on the condition that changes to Delegations are consistent with Treasury instructions.</p>
<p>27. The roles and responsibilities for the OCS and Operational Units are defined and communicated through a Memorandum of Understanding.</p>		<p>Accepted</p>

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<p>28. The Framework is implemented progressively for 2009-10 funding agreements, with the initial focus on funding agreements greater than \$250,000 in value.</p>	<p>The Office for the Community Sector foreshadowed in May 2008 that an integrated finance and performance framework would be implemented in the 2009-10 financial year. Although there is a lot of work to be done to transform this report into a workable framework complete with policy manuals, tools and proforma, the original intention remains possible.</p> <p>However, converting approximately 400 service agreements into the new framework will be very resource intensive and will need to be staged if it is to be achieved with current resources.</p> <p>Focusing on the highest value agreements first will mean a high percentage of the value of grant funding will be transferred into the new framework with the lowest percentage of Agreements involved.</p>	<p>Accepted with agreement to amended to apply to funding agreement with a value of over \$500,000.</p>
<p>29. The OCS incorporate the Framework Implementation plan into the OCS Unit and work plans for the second half of 2008-09 and for 2009-10.</p>	<p>Accepted as core business for the Office.</p>	<p>Accepted.</p>