

# **Efficiency through Contestability Programme**

Across Entities

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Canberra ACT  
21 May 2018

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit across entities titled *Efficiency through Contestability Programme*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, which appears to read "Grant Hehir".

Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## **AUDITING FOR AUSTRALIA**

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# Summary and key learnings

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## Background

1. In 2014–15, the Government introduced the Efficiency through Contestability Programme (the Programme) led by the Department of Finance (Finance). The Programme aimed to apply the most efficient way of designing and delivering government policies, programmes and services. The Programme was part of a Contestability Framework, which first considered whether government should deliver a function, and then assessed whether a function should be open to competition and the appropriate means for this to occur.

2. Under the Framework, a Contestability Programme Steering Committee developed and recommended a programme of work for Contestability Reviews, Functional and Efficiency Reviews, and Portfolio Stocktakes.<sup>1</sup> Also under the framework:

- the Minister for Finance was to approve the programme of work, which was intended to progressively cover all areas of government;
- responsible Ministers, with the support of their entities, were to ensure the completion of planned reviews and make recommendations to Government on review outcomes, implementation arrangements and cessation of functions; and
- reviews were to provide the public sector and government with a robust evidence base to inform and guide its decision making.

3. After commencing a pilot in 2014, Finance implemented the Programme in 2015 and published supporting *Contestability Programme Guidelines*. The Programme ceased on 30 June 2017, although as envisaged at the outset of the Programme, implementation of many review recommendations by responsible entities was ongoing. In May 2017, the Minister for Finance observed that most portfolios had been reviewed through the Programme and that ‘Functional and Efficiency Review outcomes have achieved savings of around \$5 billion from 2014–15 to 2020–21’.

## Audit objective and criteria

4. The objective of the audit was to assess the effectiveness of the Efficiency through Contestability Programme in supporting entities to improve the efficient delivery of government functions. The criteria were:

- the Department of Finance effectively designed, administered and supported the oversight of the Programme;
- all reviews supported entities to design initiatives to improve the efficient delivery of government functions and make recommendations to Government (through the responsible Minister) on implementation arrangements; and
- selected entities have implemented agreed initiatives as planned and have monitored and reported on achieving planned financial and non-financial efficiency gains to Finance and the responsible Minister.

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1 Table 1.2 explains the various reviews.

## Conclusion

5. The Efficiency through Contestability Programme was effective in supporting entities to review the efficient and effective delivery of government functions. The Programme has produced many recommendations to improve the efficiency of administrative systems and, to a lesser extent, the contestability and means of delivering government functions. Substantial Budget savings have arisen from the Programme, although entities have not yet demonstrated the extent of efficiency and performance improvements supporting those Budget savings. Entities would benefit from developing performance measures that capture improvements in efficiency over time—such as through the use of baselines or benchmarks.

6. Finance effectively designed, administered and supported the implementation of many elements of the Programme. The department's planning was sound and it provided adequate support and guidance to entities conducting reviews. Finance undertook planned evaluation, and in December 2017 concluded that the Programme supported Budget repair in excess of \$5 billion over the forward estimates. Finance could have provided the Contestability Programme Steering Committee with more support to determine whether Functional and Efficiency Reviews met their terms of reference.

7. While often not following Programme guidelines, the reviews made a large number of recommendations to improve delivery of government functions and/or increase operational and administrative efficiencies, but did not often propose market based improvements. Many recommendations have been accepted or are being considered by Government, and the projected total net savings to Budget greatly exceed the cost of conducting the reviews.

8. Virtually all projected Budget savings from the Programme are from the four reviews whose implementation of recommendations was examined in detail in this audit.<sup>2</sup> There has been divergence between entities in implementing recommendations against plans. Monitoring has focused on implementation progress, with little evaluation of whether savings from implementing recommendations are based on efficiency improvements rather than reductions in services or other outputs. Entity reporting to Finance has been mainly through the Budget process that focuses on net changes to appropriations.

## Supporting findings

### Administration of the Programme by Finance

9. To support the implementation of the Programme, Finance developed a programme implementation plan and programme guidelines, established governance arrangements including clear roles and responsibilities, conducted risk analyses and provided support and guidance to entities undertaking reviews on the limited occasions this was requested. In line with initial planning, support and guidance arrangements were focused on the conduct of reviews, with lesser coverage of the implementation of recommendations.

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2 The ANAO examined four reviews to determine whether agreed recommendations had been implemented as planned. These were Functional and Efficiency Reviews of the Department of Foreign Affairs and Trade, Department of Health, Department of Social Services, and Management of the Commonwealth's Insurable Risk Contestability Review that involved Comcare and the Department of Employment.



10. Finance supported the Contestability Programme Steering Committee to effectively carry out some but not all of its roles for the Programme. The department supported the Committee to provide strategic guidance and direction, consider the forward work programme and report on the progress of individual reviews and the Programme, but not to clearly determine whether Functional and Efficiency Reviews met their terms of reference. Finance provided administrative support for Committee meetings, including by preparing briefing papers, although it did not maintain records of decisions and action items for many meetings.

11. Finance undertook the majority of the monitoring and evaluation required under the Programme Implementation Plan. In particular, it regularly monitored individual reviews, monitored savings and analysed themes in recommendations across Functional and Efficiency Reviews, identified lessons learned and prepared a Programme Evaluation Report in December 2017. Finance has not evaluated Contestability Reviews completed after the pilot phase or undertaken a structured evaluation of Functional and Efficiency Reviews. Finance considers that the Programme has positively contributed to Budget repair, efficiencies, effectiveness and supporting Government decision making. However, the department has had limited visibility of the implementation of recommendations from reviews, which has diminished the extent to which conclusions can be drawn about improvements in efficiency and effectiveness. In early 2018, Finance was undertaking a stocktake of the implementation of review recommendations, to inform the Minister for Finance about the outcomes of the Programme and support the Secretaries APS Reform Committee.

### **Review recommendations, savings and costs**

12. The conduct of reviews was compliant with many, but not all, expectations established in the *Contestability Programme Guidelines* and the review terms of reference. Less than half of the 22 Functional and Efficiency Reviews met planned timeframes for consideration by the responsible Minister and/or Government, and few reviews were assessed as meeting the terms of reference. Review reports generally did not include benchmarks to demonstrate efficiencies or assessments to evaluate the benefits of implementation. Transition arrangements to implement recommendations, where included in review reports, were not specific or detailed.

13. The Programme proposed many recommendations to improve the efficient delivery of government functions. A total of 960 and 74 recommendations were made across 22 Functional and Efficiency Reviews and 11 Contestability Reviews respectively. Recommendations often focused on internal system improvements such as structural change, streamlining processes, and adopting improved products and services. Relatively few recommendations were made to cease functions or identify opportunities for alternative providers of the function, and market based improvements almost exclusively focused on outsourcing.

14. Responsible Accountable Authorities generally considered all Functional and Efficiency Review recommendations, and supported or agreed, agreed in part, or in principle, a substantial majority (73 per cent) of those recommendations, and the relevant Minister considered and largely endorsed entities' positions. Approximately one quarter of all recommendations were considered by Government, and generally focused on reducing expenditure or generating income. Few recommendations from these reviews were rejected by Accountable Authorities (68 recommendations, seven per cent), Ministers (79 recommendations, eight per cent) or the Government (35 recommendations, four per cent). Similarly, very few recommendations

(three recommendations, four per cent) from Contestability Reviews were rejected, and the Government either accepted or is considering over half of all recommendations from these reviews. However, for three of the 11 Contestability Reviews, the responsible Minister had not considered recommendations, and recommendations from four Contestability Reviews were not considered by Government.

15. Estimated net savings to Budget of more than \$5 billion over the forward estimates exceed the total reported cost (\$18.7 million) of undertaking Functional and Efficiency Reviews and Contestability Reviews—although few entities were able to provide the full cost of the reviews. Savings to Budget were derived exclusively from Functional and Efficiency Reviews, and mainly from reductions in programme outlays (\$5.0 billion) rather than departmental outlays (\$122.3 million). Most reviews have not led to a net saving to Budget, with savings being reported for only eight of 25 participating entities.

### **Implementation of review recommendations**

16. For the four reviews examined in detail, the Department of Employment, Comcare, the Department of Health and the Department of Social Services developed implementation plans for all or most of their accepted recommendations, while the Department of Foreign Affairs and Trade developed implementation plans for only ten per cent of its accepted recommendations. Where implementation plans were developed, they regularly included implementation milestones and lines of accountability. Eight plans (five per cent) established performance measures, and only one plan established benchmarks for performance measures.

17. While all entities have implemented or commenced implementing between 65 and 90 per cent of accepted recommendations from the four reviews, the Department of Employment, Comcare and the Department of Health demonstrated that implementation was in accordance with plans. The Department of Social Services provided plans for implementing eight of its 12 accepted recommendations, and demonstrated that it had implemented six recommendations and was implementing another six recommendations. The Department of Health had a number of accepted recommendations where implementation had not commenced or would not be progressed (35 per cent), and the Department of Foreign Affairs and Trade had not established completion dates for a number of recommendations where implementation had commenced.

18. Entities monitored and reported on the implementation of recommendations from the four reviews, but focused on milestones and deliverables and rarely on achieving outcomes. Only Comcare and the Department of Employment established and reported on measures of efficiency or effectiveness. One of the entities established baselines to support an assessment of efficiency or performance improvements. The Department of Health regularly monitored and reported to senior governance committees on the implementation of recommendations from its Functional and Efficiency Review. The Department of Social Services undertook some reporting on the implementation of individual recommendations to governance committees. The Department of Foreign Affairs and Trade undertook ad hoc monitoring and reporting arrangements to report on the progress of implementation. For some recommendations, departmental appropriations were reduced on the premise that operating efficiencies would be achieved. In the absence of a baseline, performance measures and trend analysis for efficiency, service level and quality it is difficult for entities to demonstrate that these initiatives have led to efficiencies and performance improvements.

19. Reductions over the forward estimates to the Budget arising from the Functional and Efficiency Reviews of the Department of Health, Department of Social Services and the Department of Foreign Affairs and Trade totalled \$4.9 billion, which represented 95 per cent of total net savings for the Programme reported by Finance. Of the four reviews examined, only the Department of Employment has evaluated and reported the outcomes of the implementation of recommendations—from the Insurable Risk Contestability Review, although any savings arising from this review have not been returned to the Budget. The Department of Social Services has evaluated the implementation of one recommendation but could not demonstrate that all planned savings and efficiencies were achieved. The responsible Ministers for Health, Social Services and Foreign Affairs were involved in proposing savings through submissions to Government and the Budget process for individual or groups of recommendations arising from these reviews. Beyond these pre-established arrangements, processes were largely not in place to evaluate and report to these Ministers on the outcome of the implementation of recommendations.

## Summary of entity responses

20. The proposed audit report, or an extract, was provided to the 25 entities listed in Appendix 2. Eleven entities formally responded, and 14 entities confirmed that they would not be providing a formal response to the audit. Summary responses from the primary audited entities are provided below, with full responses from all responding entities at Appendix 1.

### Department of Finance

Finance notes the findings and key learnings in the Report.

### Department of Education and Training

The Department of Education and Training acknowledges the Australian National Audit Office's (ANAO) report and the associated work undertaken on the Efficiency through Contestability Programme. The department also acknowledges that there are no recommendations or findings to which it needs to respond.

### Department of Jobs and Small Business

The Department of Jobs and Small Business agrees with the key learnings from the audit and was pleased the Australian National Audit Office found the Department had, in the context of the Commonwealth's Insurable Risk Contestability Review:

- developed implementation plans for the accepted recommendations including milestones, performance measures and lines of accountability;
- demonstrated implementation was in accordance with these plans and had a structured approach to monitoring and reporting on implementation; and
- had evaluated and reported the outcomes of implementation.

### Department of Health

The Department of Health was one of the key departments reviewed by the ANAO in assessing the effectiveness of the Efficiency through Contestability Programme. The Department notes that

nearly all projected Budget savings for the Programme came from the four reviews contained in the ANAO report, [with a substantial proportion from the Department of Health].

The Programme, along with other reviews being undertaken in the Department at that time, assisted in identifying opportunities for efficiencies and improvements to be made in organisational capability. The ANAO acknowledged the large number of recommendations to be implemented by the Department and the well-developed implementation plans. The Report also highlighted that the recommendations of the Programme were integrated into the Health Capability Program Action Plan which had been developed to respond to the Health Functional and Efficiency Review.

The Department agrees with the ANAO's key learnings for agencies identified in the Report focussing on programme design, governance and risk management, and performance and impact measurement outlined on [page 13] of the Report.

Since the reviews, the Department has undergone a number of structural changes and Machinery of Government changes. The outcomes of the reviews and learnings identified in the ANAO report will contribute to the ongoing need to improve organisational performance to support implementation of the Government priorities and ensure the Department is seen as a high performing agency.

## **Department of Human Services**

The Department of Human Services (the department) notes the report's findings. The department also notes that the report does not identify any issues or make any recommendations that are specific to the department.

## **Department of Social Services**

The Department of Social Services (the department) welcomes the conclusion and key learnings for Australian Government entities identified in the audit report on the Efficiency through Contestability Programme. The audit report notes that 12 recommendations were accepted by the Government and/or the department during the department's Functional and Efficiency Review in 2015. Since the ANAO concluded its fieldwork for this audit an additional three recommendations from the department's 2015 Functional and Efficiency Review have been accepted, or partially accepted, and are being implemented. These include the cessation of Sickness Allowance and Utilities Allowance, which formed part of the *Social Services Legislation Amendment (Welfare Reform) Act 2018* and the introduction of a family income test for Carer Allowance, subject to the passage of the Social Services Legislation Amendment (Payment for Carers) Bill 2018.

The department notes that of the total \$5 billion in savings across the Forward Estimates achieved by all agencies, the department contributed \$3.21 billion of these savings.

## **Department of Foreign Affairs and Trade**

DFAT thanks the ANAO for this audit and observations on DFAT's implementation of the Functional and Efficiency Review (FER) recommendations. DFAT's FER delivered \$50.5 million of savings and generated \$221.5 million in additional revenue.

Of the 75 recommendations identified in the FER, 33 have been implemented. Implementation plans were in place for 23 recommendations, 12 of which have been fully implemented. Implementation plans were used where the recommendation was assessed by DFAT as having a level of complexity and risk that required additional oversight and governance.

## Key learnings for all Australian Government entities

21. Below is a summary of key learnings identified in this audit that may be considered by other Australian Government entities.

### Programme design

- In the programme design phase, entities should provide advice on implementation risks, and prepare an implementation plan—or if that is not feasible, early in the post-announcement period, prior to implementation.
- Policy design, advice to Government, and programme implementation should all be informed by sound analysis and a strong evidence base.

### Governance and risk management

- Risk management plans and strategies should be supported by institutional frameworks that ensure continuity in risk management and mitigation for the duration of the project.
- Key actions that need to be undertaken to meet responsibilities under a programme should be documented, assigned and monitored.
- Sufficient records should be created and retained to demonstrate key actions and decisions taken and support easy identification and retrieval. This would include records of:
  - meeting programme requirements and expectations established in frameworks, guidelines and terms of reference;
  - fulfilling responsibilities;
  - key decisions and actions of the Accountable Authority; and
  - providing advice to Ministers and Government and the relevant decisions made.

### Performance and impact measurement

- Review and evaluation arrangements should be identified in the design phase, including baseline data and access to reliable sources of data, to help measure or evaluate the intended impact of programmes.
- Costs, savings and benefits (where relevant) associated with projects should be outlined during the project planning phase to enable informed value assessments and enhance accountability.
- During and following implementation of an activity to improve performance (including service levels and/or efficiency), trends in performance measures against the baseline should be monitored and reported to demonstrate whether implementation objectives have been achieved.
- Following completion of the implementation of significant change programs and recommendations, an evaluation of the outcomes against objectives should be made to determine the success of the actions taken, and whether further or different actions are required.



# Audit findings

# 1. Background

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## Introduction

1.1 In 2013, the Australian Government introduced the Smaller Government Reform agenda to improve the efficiency and effectiveness of the Commonwealth public sector, and eliminate waste and duplication. As part of these reforms, the Government established the National Commission for Audit—an independent body tasked to review and report on the performance, functions and roles of the Commonwealth Government. The Commission’s Phase One Report, published in February 2014, stated that for the nation’s finances to be restored<sup>3</sup>:

The government will have to rationalise and streamline many of the things it currently does and in some areas stop doing things completely. This includes rationalising the number of bodies and agencies, ceasing many grant programmes and other ineffective programmes, limiting industry assistance and streamlining other functions.

Government needs to better apply market based and technological solutions to improve the way many government services are delivered. This includes considering opportunities for privatisation, making better use of data and information technology and a commissioning of greater private sector expertise in the design and delivery of services including e-Government services.

1.2 The National Commission of Audit sought to improve efficiency through a number of means, including:

- eliminating duplication of roles and responsibilities across levels of government and between entities in the Australian Public Service; and
- standardising corporate business processes and adopting the staged introduction of shared corporate services.<sup>4</sup>

## Efficiency through Contestability Programme

1.3 As part of the Smaller Government reforms, the Government also introduced the Efficiency through Contestability Programme (the Programme) led by the Department of Finance (Finance). The aim of the Programme was to seek and apply the most efficient and effective way of designing and delivering government policies, programs and services. The Programme was to support the public sector in the process of transitioning from its traditional role as the ‘provider’ and ‘owner’ of government functions to more of a ‘co-designer’ and ‘enabler/funder’ of alternative provider models. The goal was to ensure that the ‘public sector is as big as it needs to be, but as small as it can be’.<sup>5</sup>

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3 National Commission of Audit, *Towards Responsible Government—The Report of the National Commission of Audit—Phase One Report*, 14 February 2014, p. 51. Available from <[http://www.ncoa.gov.au/report/docs/phase\\_one\\_report.pdf](http://www.ncoa.gov.au/report/docs/phase_one_report.pdf)>, [accessed 8 September 2017].

4 National Commission of Audit, *Towards Responsible Government—The Report of the National Commission of Audit—Phase Two*, 31 March 2014. Available from <[http://www.ncoa.gov.au/report/docs/phase\\_two\\_report.pdf](http://www.ncoa.gov.au/report/docs/phase_two_report.pdf)>, [accessed 8 September 2017].

5 Department of Finance, *Efficiency Through Contestability Programme—Toward Smaller, More Nimble Government*, p. 1. Available from <<https://www.finance.gov.au/sites/default/files/fact-sheet-smaller-government.docx>>, [accessed July 2017].



1.4 The Programme was part of the Commonwealth-wide Contestability Framework (the Framework), which the Australian Government introduced through the 2014–15 Budget. The Framework intended that a review would first consider whether government should deliver a function, and then assess whether the function should be open to competition and determine the appropriate means for this to occur. After commencing a pilot in 2014, Finance implemented the Programme in 2015 and published supporting *Contestability Programme Guidelines*.

1.5 Under the Framework, a Contestability Programme Steering Committee<sup>6</sup> developed and recommended a program of work for Contestability Reviews, Functional and Efficiency Reviews, and Portfolio Stocktakes.<sup>7</sup> Also under the Framework:

- the Minister for Finance was to approve the programme of work, which was intended to progressively cover all areas of government;
- responsible Ministers, with the support of their entities, were to ensure the completion of planned reviews and make recommendations to Government on review outcomes, potential implementation arrangements, progress on implementation of contestable arrangements and cessation of functions;
- the reviews were to provide the public sector and government with a robust evidence-base to inform and guide its decision making<sup>8</sup>; and
- entities needed to fund reviews within existing resource arrangements.

1.6 The Programme ceased on 30 June 2017, although the measure allowed ongoing application of the Contestability Framework.<sup>9</sup> Finance advised in January 2018 that it has an ongoing policy advice role, advising the Minister for Finance and Government about the application of the Framework. In May 2017, the Minister for Finance observed that most portfolios and departments<sup>10</sup>, and a significant portion of funding, had been reviewed through the Efficiency through Contestability Programme.<sup>11</sup> The Minister further observed that:

... Functional and Efficiency Review outcomes have achieved savings of around \$5 billion from 2014–15 to 2020–21 – with around a further \$14 billion over the period 2021–22 to 2026–27, through streamlining programs, improving span of control, systems and compliance processes, and terminating legacy programs.<sup>12</sup>

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6 The Committee was chaired by a Deputy Secretary from Finance, and included an additional four to eight members (throughout the Programme) at the First Assistant Secretary level from Australian Government entities.

7 Table 1.2 explains the various reviews.

8 Department of Finance, *Efficiency Through Contestability Programme—Toward Smaller, More Nimble Government*, p. 2. Available from <<https://www.finance.gov.au/sites/default/files/fact-sheet-smaller-government.docx>>, [accessed July 2017].

9 As envisaged at the outset of the Programme, implementation of many of the review recommendations by responsible entities was ongoing when the Programme ceased.

10 With the exception of the Department of Defence and the Department of Parliamentary Services.

11 Commonwealth of Australia, *Budget Paper No. 4: Agency Resourcing, 2016–17*, Preface. Available from <[http://www.budget.gov.au/2017-18/content/bp4/download/Budget2017-18\\_BP4.pdf](http://www.budget.gov.au/2017-18/content/bp4/download/Budget2017-18_BP4.pdf)>, [accessed September 2017].

12 Commonwealth of Australia, *Budget Paper No.4, 2017–18*, Preface, p. 5. Available from <[http://www.budget.gov.au/2017-18/content/bp4/download/02\\_Preface.pdf](http://www.budget.gov.au/2017-18/content/bp4/download/02_Preface.pdf)>, [accessed July 2017].

## Analysing the contestability of government functions

1.7 The Programme defined contestability as ‘the prospect of competition in public sector functions to improve both the efficiency and effectiveness of contributing to achieving government’s outcomes’.<sup>13</sup> The Contestability Framework notes that competition can come from outside the government or from other entities within the public service, and can improve the efficiency with which government programs are undertaken.

1.8 The Programme sought to systematically review government functions with a view to entities improving the effective achievement of government outcomes. Through the reviews, entities were asked to demonstrate how well they achieve government objectives and explore alternative and innovative means to improve efficiency. When considering the potential to improve efficiency, the reviews were to consider a spectrum of possible arrangements (see Table 1.1), both within and beyond the boundary of government.

**Table 1.1: Spectrum of possible arrangements to improve efficiency**

Type of improvement	Alternate arrangements or options
System	Improve structures, e.g. flatter, less hierarchical structures; shared services Improve processes, e.g. streamline reporting requirements; joined up government Improve requirements, e.g. reduce unnecessary red tape and regulations Improve products or services, e.g. adopt user-centric design; move to digital solutions
Engagement	Improve government relations, e.g. shared footprint; integrated services Improve contractual practices, e.g. payment by outcomes Innovative public investment strategies, e.g. social investment bonds Develop behavioural and policy incentives to promote better compliance with, or take-up of, government initiatives
Market	Build a market Partner with others, e.g. Public Private Partnerships, cross-sector Alliances Form a Government Business Enterprise Privatised, outsource, mutualise

Source: Finance, *Contestability Programme Guidelines*, 2015, p. 7.

1.9 Analysing the contestability of functions provided entities with an opportunity to consider:

- what role should the government have;
- how functions align to government priorities;
- how to best achieve a function’s intended effect;
- who is best placed to undertake a function; and
- how to encourage entities to improve the efficiency and delivery of the function, through the prospect of competition.

<sup>13</sup> Department of Finance, *Contestability Programme Guidelines*, 2015, p. 2.

## Contestability Programme reviews

1.10 As mentioned previously, Contestability Programme reviews include Portfolio Stocktakes, Contestability Reviews and Functional and Efficiency Reviews. Table 1.2 provides an overview of the purpose and lines of inquiry for entities for each of these reviews, as well as the number of reviews commissioned as part of the Programme. Where a Functional and Efficiency Review was completed, there was usually no need to undertake a Portfolio Stocktake.<sup>14</sup> Both the Portfolio Stocktake and the Functional and Efficiency Review could lead to the entity identifying one or more functions to be subject to a Contestability Review.

1.11 To undertake the reviews, a review leader was appointed who was generally supported by a team that comprised contractors and/or internal staff. For Portfolio Stocktakes and Contestability Reviews, the review leader was usually a Senior Executive within the responsible entity, whereas for Functional and Efficiency Reviews an independent review leader needed to be appointed by the responsible Accountable Authority with the agreement of the Department of Finance.<sup>15</sup> Accountabilities and responsibilities for the review were pre-determined by the type of review being conducted. Review leaders for Portfolio Stocktakes and Contestability Reviews were to report results to the responsible Accountable Authority (and the Contestability Programme Steering Committee). Independent review leaders for Functional and Efficiency Reviews were to report to the responsible Minister and the Minister for Finance. In all cases the Contestability Programme Steering Committee and the Department of Finance had an assurance and oversight role.

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14 Finance advised in April 2018 that entities undertaking a Functional and Efficiency Review were generally not required to undertake a Portfolio Stocktake because these were built into the Functional and Efficiency Reviews. In practice, review commissioning occurred in a variety of sequences. For example, the Minister for/Secretary of Finance commissioned in the Department of Industry, Innovation and Science two Contestability Reviews, then a Portfolio Stocktake and finally a Functional and Efficiency Review. All these reviews were to be considered by Government at the same time.

15 Department of Finance, *Contestability Programme Guidelines*, March 2015, p. 11.

**Table 1.2: Review types—purpose and key lines of enquiry**

Review type	Reviews commissioned	Purpose	Key lines of enquiry
Portfolio Stocktakes	7	Assess functions across a portfolio at a high level and identify the functions with the greatest potential to be delivered more efficiently through alternative means.	<ol style="list-style-type: none"> <li>1. Identify and list all functions undertaken by entities within the portfolio.</li> <li>2. Consider how to improve the efficiency of achieving the function, including whether any other organisation (within or outside of Government) could provide the function (in whole or in part).</li> <li>3. Consider any reasons why new providers could not deliver functions more efficiently, or if there are any other impediments (such as cultural or security considerations).</li> <li>4. Consider if government should provide the function.</li> <li>5. Propose functions that may benefit from a Contestability Review.</li> </ol>
Contestability Reviews	12	Consider in detail how the identified functions should best be delivered through alternative means.	<ol style="list-style-type: none"> <li>1. Outline the objective of the function, how it is currently provided and associated costs.</li> <li>2. Identify other available alternatives (including provision by other organisations and options to improve the efficiency of the current provider).</li> <li>3. Assess the costs, benefits, risks and any other considerations for each alternative.</li> </ol>
Functional and Efficiency Reviews	21 <sup>a</sup>	Consider the alignment of entity functions to government priorities; identify the functions with the greatest potential to be delivered more efficiently; and consider how these could be delivered through alternative means, operational improvements, and additional efficiencies.	<ol style="list-style-type: none"> <li>1. Determine the role of the entity and whether its current functions align with the Government's forward priorities and policy commitments.</li> <li>2. Identify any barriers preventing the entity from achieving its current intended outcomes and, where relevant, propose solutions to address these concerns.</li> <li>3. Assess the feasibility and efficiency of alternative approaches to address the Government's priorities including identifying the benefits, costs, risks and any other relevant considerations (including legal, regulatory and cultural considerations).</li> <li>4. Propose a transition path to implement preferred alternatives, including how performance could be managed, staffing, capability considerations and potential governance arrangements.</li> </ol>

Note a: Twenty-two Functional and Efficiency Reviews were completed under the Programme as the Australian War Memorial completed a separate review to the Department of Veterans' Affairs.

Source: Finance, *Contestability Programme Guidelines*, 2015, p. 7, 10 and 11.

## Audit approach

1.12 The ANAO selected the Efficiency through Contestability Programme for audit because of its potential to generate significant efficiency improvements and Budget savings. Australian Government spending was in excess of \$419 billion in 2013–14 when the Government introduced the Programme to improve efficiency and effectiveness in an environment where the Australian public sector was expected to deliver better public services to meet the growing needs of Australian citizens in the face of increasing Budget deficits.<sup>16</sup>

### Objective, criteria and methodology

1.13 The objective of the audit was to assess the effectiveness of the Efficiency through Contestability Programme in supporting entities to improve the efficient delivery of government functions.

1.14 The audit criteria were:

- Finance effectively designed, administered and supported the oversight of the Programme;
- all reviews supported entities to design initiatives to improve the efficient delivery of government functions and make recommendations to Government (through the responsible Minister) on implementation arrangements; and
- selected entities have implemented agreed initiatives as planned and have monitored and reported on achieving planned financial and non-financial efficiency gains to Finance and the responsible Minister.

1.15 In undertaking the audit, the audit team:

- examined Finance's records including Contestability Framework documents (including the *Contestability Programme Guidelines*, the Programme implementation plan, and briefings to the Secretary and the Minister), and interviewed relevant officials in Finance;
- for all Functional and Efficiency Reviews and Contestability Reviews commissioned, examined entities' records (including briefings to the Accountable Authority and the responsible Minister, the review and contract information), and in some cases interviewed relevant officials. The ANAO also sought representations from entities where records were not available; and
- for selected reviews, examined entities' records of the implementation of review recommendations.

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16 The Consolidated Financial Statements for the Australian Government show that annual expenses have steadily increased since the introduction of the program: \$419 billion in 2013–14; \$428 billion in 2014–15; \$442 billion in 2015–16; and \$462 billion 2016–17.

## Entities included in the audit

1.16 Finance was included in the audit as the programme administrator and as the entity responsible for seven reviews. For each of the 22<sup>17</sup> Functional and Efficiency Reviews and 12 Contestability Reviews, at least one of the lead entities was selected for inclusion in the audit—25 entities in total (see Appendix 2).<sup>18</sup>

1.17 In addition, the following four reviews were selected to determine whether agreed recommendations had been implemented and achieved planned financial and non-financial efficiency gains:

- The Management of the Commonwealth’s Insurable Risk Contestability Review;
- The Department of Foreign Affairs and Trade and Portfolio Functional and Efficiency Review;
- The Department of Health Functional and Efficiency Review; and
- The Department of Social Services Functional and Efficiency Review.

These four reviews were selected as they were completed within the first 18 months of the Programme, which provided time for the entities to plan, implement and evaluate some of the efficiencies and performance improvements arising from agreed recommendations.

1.18 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$735 000.

1.19 Team members for this audit were Tracey Martin, Elizabeth Wedgwood, Irena Korenevski, Jacqueline Hedditch, Lucy Donnelly, Grace Guilfoyle, Nikol Jepson, David Hokin and Andrew Morris.

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17 The Finance Minister commissioned 21 Functional and Efficiency Reviews, including a review of the Department of Veterans’ Affairs that was to include the Australian War Memorial. The Australian War Memorial completed a separate Functional and Efficiency Review from the Department of Veterans’ Affairs. For the purposes of this report, the ANAO considers 22 reviews have been completed.

18 The audit includes Functional and Efficiency Reviews and/or Contestability Reviews involving the Department of Employment, the Department of Immigration and Border Protection and the Department of Infrastructure and Regional Development. Due to the Administrative Arrangements Order amendments introduced on 20 December 2017, the Department of Employment became the Department of Jobs and Small Business; the Department of Infrastructure and Regional Development became the Department of Infrastructure, Regional Development and Cities and the Department of Immigration and Border Protection became the Department of Home Affairs. For the purposes of the report the Department of Jobs and Small Business will be referred to as the Department of Employment, the Department of Infrastructure, Regional Development and Cities will be referred to as the Department of Infrastructure and Regional Development, and the Department of Home Affairs will be referred to as the Department of Immigration and Border Protection throughout the report.

## 2. Administration of the Programme by the Department of Finance

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### Areas examined

The ANAO examined whether the Department of Finance (Finance) effectively designed, administered and supported the oversight of the Efficiency through Contestability Programme (the Programme).

### Conclusion

Finance effectively designed, administered and supported the implementation of many elements of the Programme. The department's planning was sound and it provided adequate support and guidance to entities conducting reviews. Finance undertook planned evaluation, and in December 2017 concluded that the Programme supported Budget repair in excess of \$5 billion over the forward estimates. Finance could have provided the Contestability Programme Steering Committee with more support to determine whether Functional and Efficiency Reviews met their terms of reference.

### Areas for improvement

Programme administration and support could have been improved by Finance: updating Programme guidelines, implementation plan and risk assessment (paragraphs 2.12 and 2.13); and incorporation of other entity reviews into Functional and Efficiency Reviews (paragraph 2.15).

### Has Finance developed programme guidelines and support arrangements, and provided support and guidance to entities?

To support the implementation of the Programme, Finance developed a programme implementation plan and programme guidelines, established governance arrangements including clear roles and responsibilities, conducted risk analyses and provided support and guidance to entities undertaking reviews on the limited occasions this was requested. In line with initial planning, support and guidance arrangements were focused on the conduct of reviews, with lesser coverage of the implementation of recommendations.

### Programme planning

2.1 On 19 June 2014, the Secretary of Finance approved the *Efficiency through Contestability Programme Implementation Plan*.<sup>19</sup> The implementation plan included elements such as roles and responsibilities and resource management arrangements, but included few milestones beyond the pilot phase<sup>20</sup> and no performance measures. The focus of Finance's monitoring activities was on the conduct of reviews. Implementation of contestability recommendations arising from reviews

19 The Minister for Finance noted the Secretary's approval of the implementation plan on 25 June 2014. Finance drew on experiences of other jurisdictions, including Queensland and the United Kingdom.

20 Finance advised the ANAO that the design of the Contestability Programme took into account the unprecedented nature of the proposed activities and was developed to allow for adjustment of the Programme elements following evaluation of the pilot phase. As adjustment was expected post-pilot phase, detailed milestones were not included in the implementation plan.

was not captured in the monitoring arrangements as implementation was the responsibility of the relevant Minister and entity. The implementation plan indicated that an assessment of the implementation of early measures from initial reviews would provide valuable experience for later reviews and implementation plans. A briefing prepared in August 2014 for the incoming Finance Secretary noted weaknesses in monitoring and evaluation arrangements:

32. A detailed programme Evaluation Framework is yet to be developed. It was envisaged this Framework be developed with oversight by, and with involvement of representatives selected by, the CSC [Contestability Steering Committee<sup>21</sup>].

2.2 On 27 October 2014, the Government agreed to expand the Programme to include Functional and Efficiency Reviews. Finance developed a project plan for the expanded programme, which was approved by the responsible First Assistant Secretary on 19 January 2015. The project plan was to be used in conjunction with the implementation plan.

2.3 The project plan set out the purpose, objectives and deliverables of the Programme, dependencies, reporting arrangements, success measures, implementation phases and evaluation and review. Success measures included deliverables such as the number and timeliness of reviews completed. The focus of those measures was again on the conduct of the reviews and not their effectiveness. The project plan indicated that there would be an independent evaluation of individual Contestability Reviews (this intention is also included in the *Contestability Programme Guidelines*) and that in May 2017 Finance would repeat some aspects of the pilot evaluation, but this did not occur. Rather, Finance conducted its own evaluation, with a draft report prepared in September 2017 and a final report noted by the Minister for Finance in December 2017 (see paragraphs 2.49 to 2.51).<sup>22</sup>

2.4 Figure 2.1 outlines key programme planning and implementation timeframes.

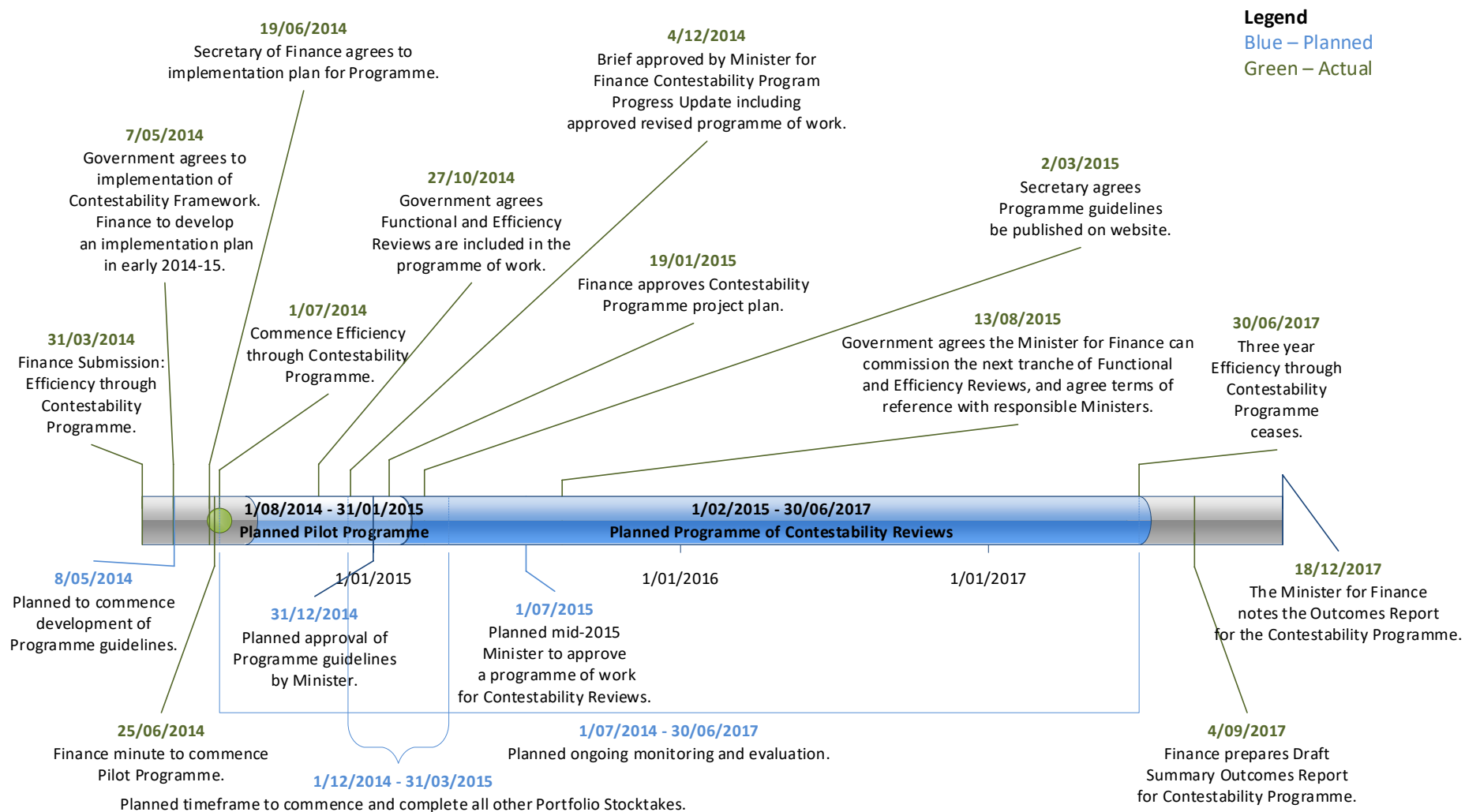
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21 The Contestability Programme Steering Committee is also referred to as the Contestability Steering Committee, or the Committee throughout the report.

22 Finance advised the ANAO that as evaluation would occur prior to the implementation of many of the recommendations it would need to be a process evaluation focused on outputs rather than outcomes. Finance considered that the pilot evaluation and an internal assessment would be sufficient to consider whether programme activities had been implemented as intended, and that this was consistent with the Government's authority. Finance's assessment involved: a desktop review of all review reports; analysis of Budget data; a review of the findings of the APS Productivity survey (which included questions related to the Programme); and the results of interviews with Committee members.



**Figure 2.1: Efficiency through Contestability Programme planning and key implementation dates**



Source: Finance Programme Implementation Plan and briefings to the Finance Secretary and the Minister for Finance.

## *Programme guidelines*

2.5 Programme guidelines were developed by Finance during the pilot phase of the Programme, in consultation with the Department of the Treasury, the Department of the Prime Minister and Cabinet and other entities involved in the pilot. Following approval from the Secretary of Finance, the *Contestability Programme Guidelines* were published on Finance's website on 2 March 2015. The implementation plan included an expectation that the guidelines would be updated and additional guidance provided throughout the Programme on an as-needs basis.

2.6 The guidelines provided details of steps involved in undertaking Portfolio Stocktakes and Contestability Reviews, but provided less detail to support the conduct of Functional and Efficiency Reviews.<sup>23</sup> Consistent with initial planning, the guidelines addressed the earlier phases of the Contestability Framework (identification and assessment), but provided little information to support the latter phases of the Framework (implementation of contestable arrangements and management).<sup>24</sup> Finance advised the ANAO in January 2018 that, given the diversity of recommendations and implementation circumstances, tailored assistance was more appropriate than further updates to the guidelines.

## *Roles and responsibilities*

2.7 A clear set of roles, responsibilities and accountabilities for the Programme were established in the implementation plan and were added to and, in some cases, refined in the *Contestability Programme Guidelines*. An overview of roles and responsibilities presented in the guidelines is provided in Figure 2.2.

2.8 The Minister for Finance had primary accountability for the Programme and was supported by Finance and the Contestability Programme Steering Committee. Portfolio Ministers were responsible for completing reviews, making recommendations to Government, implementing contestable arrangements and providing updates on the implementation of contestable arrangements. Responsible Ministers were supported by the responsible Accountable Authority and, for Functional and Efficiency Reviews, the independent review leader.

2.9 Key responsibilities of Finance included: administering the Contestability Framework; establishing a three-year programme of work from 2014–15 with the agreement of the Minister for Finance; assisting entities to review existing functions against the framework; assessing new policy proposals; and reporting to Government on progress.

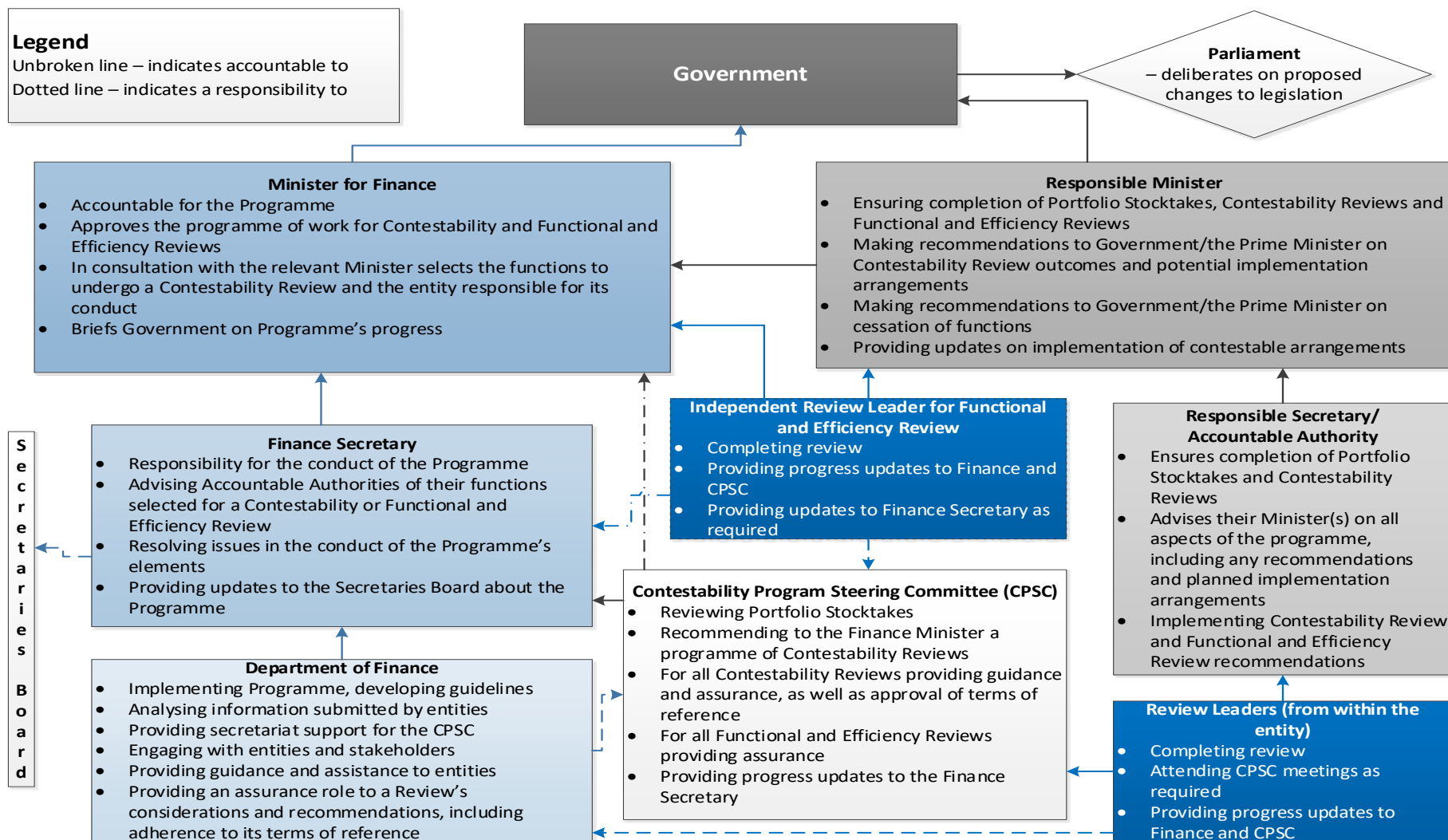
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23 Department of Finance, *Contestability Programme Guidelines*, March 2015, pp. 31–32. Available from <[http://www.finance.gov.au/sites/default/files/Contestability\\_Programme\\_Guidelines\\_March\\_2015.pdf](http://www.finance.gov.au/sites/default/files/Contestability_Programme_Guidelines_March_2015.pdf)>, [accessed 19 October 2017].

24 On 4 October 2017, Finance advised the ANAO:

Pages 34 and 35 of the ...Implementation Plan refer to management of the Contestability Framework, including performance management, APS staffing, governance and regular evaluation. This is touched on at page 29 of the Contestability Program guidelines; however, further guidance was not provided noting that Ministers and agencies were responsible for taking ownership of the reviews and taking forward recommendations for Government consideration/implementation.

**Figure 2.2: Roles and responsibilities for the Efficiency through Contestability Programme**



Source: Adapted from Finance’s *Contestability Programme Guidelines*, March 2015, Appendix A Roles and Responsibilities, pp. 45–46.

## *Risk management*

2.10 The implementation plan identified one strategic and three operational risks to the Programme. The strategic risk was: contestable arrangements that improve efficiencies are missed resulting in the Programme not delivering efficiencies to government functions. Two supporting operational risks were that there was a lack of buy-in from entities and entities are not incentivised to administer the Programme, both of which would lead to efficiencies not being achieved and entities maintain status quo arrangements. The other risk was that timeframes for the Programme were not met. Responsibility for these risks varied, however, the failure to deliver efficiencies to government functions was the responsibility of all parties.

2.11 Key controls were identified to address these risks, including: developing and updating practical and user-friendly guidelines; regular updates to the Contestability Programme Steering Committee and the Minister for Finance; use of external expertise during reviews and monitoring of reviews; establishing firm timeframes and due dates; assistance from Finance to undertake reviews; and consultation between the Minister for Finance and the responsible Minister to foster ownership and buy-in. These controls were in operation throughout the Programme, except for updating guidelines. Finance advised in April 2018 that an update to the *Contestability Programme Guidelines* was not required as these remained current throughout the Programme.

2.12 To avoid the risk outcome of efficiencies not being achieved, the implementation plan also noted that Finance's key role will be to ensure the integrity of reviews and that opportunities for efficiency improvement are not missed. The implementation plan and risk assessment were not updated after the pilot phase of the Programme.

## **Guidance and support**

2.13 The implementation plan and Programme guidelines envisaged that Finance would provide guidance and support to entities undertaking reviews. Finance advised that it had a limited role in providing guidance and support to individual reviews, although it engaged with entities through a number of forums. The forums included the Contestability Programme Steering Committee, meetings between Finance and entities at an Assistant Secretary level on a fortnightly basis (and other meetings as required at the First Assistant Secretary Level and Deputy Secretary levels), and ad hoc support and tailored guidance at officer level as needed (including through responses to email and telephone inquiries). Either or both the Minister for Finance and the Finance Secretary met with independent review leaders for 12 of the 22 Functional and Efficiency Reviews, which provided a forum for expectation setting.<sup>25</sup>

2.14 Entities generally did not seek guidance from Finance. However, some entities regularly met with Finance during the review process and received advice on better practice approaches to undertaking the review (for example, the Australian Federal Police sought advice on how to

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25 Finance prepared briefings for the Minister and Secretary for these meetings. Finance advised ANAO in January 2018 that for some reviews, meetings occurred between the Minister for Finance's staff and the independent review leaders at their discretion or as required.

approach the review and met regularly with Finance during the review process). Finance maintained records of meetings with entities<sup>26</sup>, which demonstrated a focus on methodology and process.<sup>27</sup>

2.15 In relation to the guidance and support provided by Finance, views of entities shared with the ANAO was limited but mixed, ranging from satisfied to concerns about insufficient guidance on preferred methods for undertaking the reviews and the selection of independent review leaders. One issue where entities would have appreciated greater guidance and support from Finance was the incorporation of other reviews into Functional and Efficiency Reviews.

## Has Finance supported the Contestability Programme Steering Committee to effectively oversight the Programme?

Finance supported the Contestability Programme Steering Committee to effectively carry out some but not all of its roles for the Programme. The department supported the Committee to provide strategic guidance and direction, consider the forward work programme and report on the progress of individual reviews and the Programme, but not to clearly determine whether Functional and Efficiency Reviews met their terms of reference. Finance provided administrative support for Committee meetings, including by preparing briefing papers, although it did not maintain records of decisions and action items for many meetings.

### Establishing the Contestability Programme Steering Committee

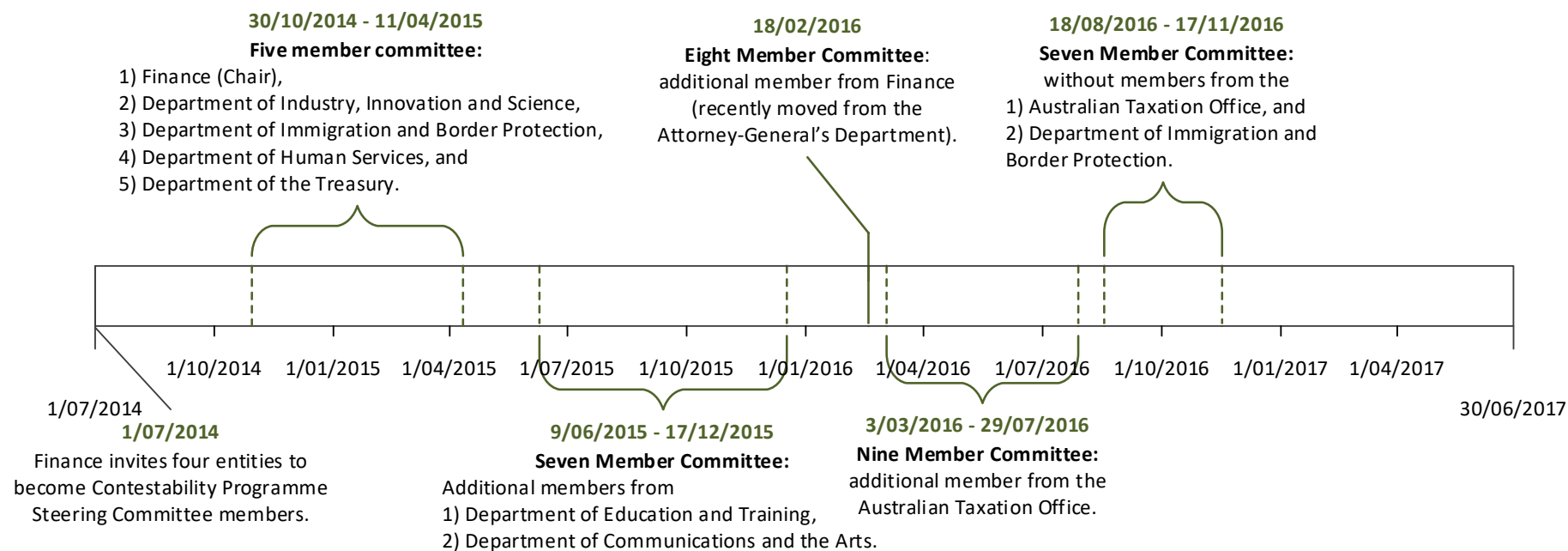
2.16 The Contestability Programme Steering Committee was established by Finance as a key element of the governance arrangements for the Programme.

2.17 Membership of the Committee included representatives of entities involved in the pilot and early reviews, with the Chair being a Deputy Secretary from Finance. Membership changed over the duration of the Programme, as shown in Figure 2.3 , to assist with the increasing number of reviews. Finance advised the ANAO in January 2018 that members were not selected as a representative of their entity, but rather as a Senior Executive Service employee of the Australian Public Service with significant subject matter expertise.

26 Finance's documentation of entities' requests for assistance through emails was limited and was not maintained in a structured way. Finance maintained a dedicated inbox as well as a Contestability Programme hotline. Finance advised that the inbox was regularly monitored and provided a log of enquiries and responses. Finance did not maintain a log of enquiries made through the hotline or when responses were made through individual officers' email accounts.

27 Process queries included: whether the independent review leader reported to the responsible Minister and the Finance Minister; the role of the Contestability Programme Steering Committee; changes to the Terms of Reference; arrangements and source of Secretariat staff; and benchmark data for common functions.

**Figure 2.3: Contestability Programme Steering Committee membership**



Source: ANAO analysis of Finance documentation.

2.18 The Committee's roles and responsibilities were outlined in its terms of reference, which were first agreed in October 2014 and revised in October 2015.<sup>28</sup> Table 2.1 outlines many of the specified roles and responsibilities of the Committee. These responsibilities were also reflected in the Programme Implementation Plan and the guidelines.

**Table 2.1: Contestability Programme Steering Committee roles and responsibilities**

Role and responsibility
Provide strategic guidance and direction for the Programme
Recommend a Programme of Contestability Reviews to the Minister for Finance <sup>a</sup>
Approve terms of reference <sup>b</sup> for Contestability Reviews
Provide guidance and assurance of all Contestability Reviews and Functional and Efficiency Reviews <sup>c</sup>
Provide progress updates to the Finance Secretary
Review Portfolio Stocktakes
Assess elements of the Programme for appropriateness, completeness and robustness
Identify connections to related initiatives

Note a: The Committee was also to make recommendations to the Secretary about functions to be reviewed.

Note b: The Committee's role also included determining the terms of reference for individual reviews.

Note c: Assurance sought to determine whether reviews were carried out in accordance with the terms of reference, Contestability Framework and programme guidelines.

Source: Finance documents including the implementation plan June 2014, *the Contestability Programme Guidelines* March 2015 (pages 45–46), the *Contestability Programme Steering Committee Terms of Reference* October 2014 and revised in October 2015.

## Discharging the Committees' roles and responsibilities

2.19 As shown in Table 2.1, the Committee's roles and responsibilities included providing: strategic guidance and direction for the Programme; input to the forward work programme; guidance and assurance about reviews; and recommendations and advice to the Minister for Finance and Secretary of Finance about aspects of the Programme.

### *Strategic guidance and direction for the Programme*

2.20 The Committee provided strategic direction and guidance for the Programme during the pilot phase, at the conclusion of the pilot and throughout the implementation phase of the Programme.

2.21 During the pilot phase, the Committee's guidance and direction included endorsing guidelines and reviewing material that was placed on the Programme website. At the conclusion of the pilot phase, the April 2015 Committee meeting resulted in a number of changes to the direction and administration of the Programme. A key change was that the Programme would have a greater

<sup>28</sup> Roles and responsibilities were also outlined in the *Contestability Programme Guidelines*, which were not completely aligned to those in the terms of reference for the Committee. In particular, the *Contestability Programme Guidelines* did not include the Committee providing strategic direction or identifying connections to related initiatives.

focus on Functional and Efficiency Reviews, and Finance would provide further guidance and support to entities, including on evidence-based outcomes.<sup>29</sup>

2.22 Throughout 2015, the Committee continued to provide guidance and support for the Programme, with the support of Finance. For example, to address action items arising from the June 2015 Committee meeting, Finance sent an out of session email in October 2015 with a revised terms of reference for the Committee, guidelines on drafting reviews and better practice review approaches to assist members when reviewing reports. Between July and November 2015, Finance prepared a recommendation register and a benefits register to monitor the outcomes of reviews, although these registers were not used after they were created.

2.23 The Committee, with the support of Finance, continued to provide strategic direction for the Programme to the beginning of 2017. At that time, Finance's Efficiency Improvement Branch met with individual members of the Committee to reflect on programme outcomes, lessons learnt and the future of the Programme. Members generally agreed that there was no further need for the Committee to continue. No further meetings of the Committee were held.

### *Forward work programme and commissioning reviews*

2.24 Relating to the direction of the Programme, one of the roles of the Committee was to consider the forward work programme and recommend to the Finance Minister a programme of Contestability Reviews. The Committee did consider the forward work programme, in most cases noting the reviews that had been added to the programme of work.<sup>30</sup>

2.25 The programme of work was prepared by Finance and approval was sought from the Minister for Finance. In May and November 2014 the Government approved pilot Contestability Reviews and Functional and Efficiency Reviews. In May 2015, the Government agreed to a programme of work involving a further 30 reviews.<sup>31</sup> The Minister for Finance commissioned 12 Contestability Reviews and 22 Functional and Efficiency Reviews by writing to the responsible Minister.<sup>32</sup> The Secretary of Finance commissioned five Portfolio Stocktakes by writing to the responsible entity.

#### Terms of reference for Contestability Reviews

2.26 The Committee was required to approve terms of reference for Contestability Reviews.<sup>33</sup> Terms of reference were to be signed by the Committee Chair (the Deputy Secretary from Finance). Meeting records indicate that terms of reference for eight Contestability Reviews were agreed at

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29 Other changes included that the Committee's input be sought at critical review milestones, and Finance would develop an issues register to inform Programme enhancements.

30 For example, on 18 November 2014 the Committee raised concerns about the expansion of responsibilities with the inclusion of Functional and Efficiency Reviews in the Programme. At this meeting, the Committee noted the addition of the Department of Health and the Department of Education and Training Functional and Efficiency Reviews, and the Commonwealth Property Services Contestability Review. In December 2014, the Committee noted the addition of the Management of the Commonwealth's Insurable Risk Contestability Review.

31 The Minister for Finance had initially agreed to a further programme of work in December 2014 involving a total of 35 reviews.

32 See Figure A.1 and A.2 in Appendix 3 for the reviews commissioned. Also see Footnote 17 regarding the number of reviews.

33 The Committee was not required to approve terms of reference for the Functional and Efficiency Reviews. These were to be agreed between the Minister for Finance and the responsible Minister.



meetings in October and December 2014, and out of session in October and November 2014, and in June and October 2015. There was no evidence of agreement by the Committee to terms of reference for two reviews, and for another review there was limited evidence about when, or if, the terms of reference were agreed by the Committee. Finance advised the ANAO in January 2018 that two terms of reference were not approved by the Committee (Management of the Commonwealth's Insurable Risk<sup>34</sup> and More Efficient and Streamlined Business Processes<sup>35</sup>).

2.27 Finance advised the ANAO that the Committee was not a decision making body, but rather an advisory body—its function was to support decision makers, and report to the Secretary of Finance (through the Chair as specified in the terms of reference). One issue that was not clear in the various governance documents (see Table 2.1) was whether the Committee was reporting through the Chair, or to the Chair in his capacity as the Deputy Secretary responsible for the Programme.

### *Guidance and assurance for reviews*

2.28 The Committee was also required to provide guidance and assurance for all Contestability Reviews and Functional and Efficiency Reviews.<sup>36</sup> As discussed in paragraph 2.22, in October 2015 Finance developed better practice approaches to assist Committee members when reviewing reports.

2.29 To gain assurance about reviews, entities needed to submit draft reports to Finance so that Finance could confirm that the report adhered to the terms of reference and the Contestability Framework, and that the report was rigorous. Reviews were also required to adhere to the *Contestability Programme Guidelines* and the intent of the Programme. Once Finance had confirmed the Review had met these minimum expectations, the Accountable Authority of the entity was to provide the final report to the Committee.

2.30 Finance provided feedback on reviews or review recommendations through meetings, correspondence and Committee meetings. Briefing papers for Committee meetings related to Functional and Efficiency Reviews usually did not provide an overall assessment of whether the review met the terms of reference or the *Contestability Programme Guidelines*.<sup>37</sup> The Committee was asked to agree on the appropriateness, completeness and robustness of reviews, or the extent to which they met the terms of reference for half of the Functional and Efficiency Reviews. The minutes of Committee meetings did not record whether it had been agreed that a review met the

34 Finance advised that Committee approval was not sought for the Management of the Commonwealth's Insurable Risk Contestability Review as it was commissioned at the request of the Finance Minister and terms of reference were agreed by the Finance Minister at the time of commissioning the review.

35 Finance advised that this review was subsumed by another process, with the Committee maintaining oversight of the Feasibility Study process on the Electronic Document and Records Management Solutions.

36 The Programme implementation plan established that Finance would have a key role in quality assurance to test findings and ensure rigour and appropriateness of reviews, including to ensure:

- reviews meet the Contestability Framework and Guidelines;
- the integrity of reviews; and
- that opportunities for efficiency improvements are not missed.

37 Briefing papers advised Committee members of the intended scope of the review, whether independent review leaders had been appointed and if the review was likely to meet the agreed timeframe. Talking points for the Committee chair generally included questions addressing the key lines of inquiry for Functional and Efficiency Reviews.

terms of reference or the *Contestability Programme Guidelines*, or the appropriateness, completeness and robustness of reviews.

2.31 For 11 Functional and Efficiency Reviews, there is no documentation<sup>38</sup> to indicate whether Finance considered that a review met the terms of reference (this included six instances where a briefing or draft briefing was prepared by Finance for the Minister for Finance). For the remaining 11 reviews, there was some documentation to suggest that the review met the terms of reference. The quality of this documentation varied, and included signed correspondence from the Minister for Finance, draft briefings to the Minister for Finance or draft correspondence from the Minister for Finance and, for one<sup>39</sup> review, a letter from the responsible Minister stated that the review met the terms of reference. Briefings to the Minister for Finance on final reports did not consider whether the review was conducted in accordance with the guidelines.<sup>40</sup> Finance advised the ANAO that where a review did not meet the terms of reference this was brought to the Minister for Finance's attention, but did not provide evidence to this effect.

2.32 Finance considered that four Contestability Reviews met the terms of reference, four did not meet the terms of reference, one review was considered to have met most of the expectations of the terms of reference and for two reviews there was not an assessment against the terms of reference by Finance. For eight reviews there was no evidence of Finance advising the Minister for Finance on whether the review met the terms of reference. The Committee was rarely asked to make an assessment of whether the review met the terms of reference.

#### *Progress updates to the Finance Secretary and Minister*

2.33 The Committee was to provide progress updates to the Secretary of Finance.<sup>41</sup> The Committee would generally receive a progress update as part of the papers for Committee meetings, which would include progress of reviews against milestones. The Committee was not asked to and did not endorse these progress updates. Other material considered by the Committee generally did not seek the Committee to endorse a briefing paper for the Secretary. Further, meeting records and action items do not record Committee endorsement of proposed briefing material for the Secretary.

2.34 In practice, Finance, through the Deputy Secretary responsible for the Programme who was also the Committee Chair, prepared briefings on programme progress for the Secretary on a regular basis (which included programme arrangements, individual reviews or a set of reviews). In some instances, these briefings referenced Committee considerations or decisions. The Minister also received regular briefings on the Programme.

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38 Many independent review leaders indicated that the reviews were consistent with or undertaken in accordance with the terms of reference.

39 The Department of Infrastructure and Regional Development Functional and Efficiency Review.

40 Where there was a briefing (or draft briefing) to the Minister for Finance on the final report, it would comment on whether the review was completed in accordance with timeframes.

41 The terms of reference for the Committee established that, through the Chair, it was to report to the Finance Secretary and the Efficiency Working Group after each meeting on key issues, including progress on decisions and actions agreed.

## Finance's administrative support for the Committee

2.35 The terms of reference for the Committee included that Committee members were to receive meeting papers prior to the monthly meeting and advice on progress of the Programme and any issues that arise. Finance arranged these meetings and provided a secretariat function for the Committee.

2.36 The Programme ran for 36 months, in which time 22 meetings were held between 29 October 2014 and 17 November 2016. In preparing for these meetings, Finance and entities attending meetings<sup>42</sup> prepared briefing papers, which provided progress updates on specific reviews<sup>43</sup>, status reports by review type, and occasionally on programme guidelines, work programmes and evaluation.

2.37 While Finance regularly provided papers for the monthly Committee meetings, it generally did not maintain records of providing these papers in advance of the meetings to external Committee members.<sup>44</sup> In addition, Finance: did not maintain meeting minutes for eight of the 22 meetings; maintained only a list of action items for one meeting (April 2016); and maintained meeting notes without records of decisions or action items for another meeting (July 2016).

2.38 After July 2016 Finance did not maintain Committee meeting records or action items. In September 2017, Finance advised the ANAO that the Committee:

... towards the end of the program met on an as needed basis, particularly once members were allocated to Champion reviews. The Champions were able to support agencies/Independent Review Leaders in progressing reviews and ensuring that the reviews met the intent of the Program ...

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42 Entities were invited to present on review progress. Depending on the review, the entity would generally be invited to present between one and four times during the conduct of the review.

43 For Contestability Reviews, this included the terms of reference, conduct and reporting. For Functional and Efficiency reviews, this included interim progress and reporting on the scope and findings of the review.

44 Papers were also distributed for decision out of session. Complete records, particularly of decisions, were not maintained.

## Has Finance monitored and evaluated reviews, the implementation of recommendations, and that the Programme improved the efficient delivery of government functions?

Finance undertook the majority of the monitoring and evaluation required under the Programme Implementation Plan. In particular, it regularly monitored individual reviews, monitored savings and analysed themes in recommendations across Functional and Efficiency Reviews, identified lessons learned and prepared a Programme Evaluation Report in December 2017. Finance has not evaluated Contestability Reviews completed after the pilot phase or undertaken a structured evaluation of Functional and Efficiency Reviews. Finance considers that the Programme has positively contributed to Budget repair, efficiencies, effectiveness and supporting Government decision making. However, the department has had limited visibility of the implementation of recommendations from reviews, which has diminished the extent to which conclusions can be drawn about improvements in efficiency and effectiveness. In early 2018, Finance was undertaking a stocktake of the implementation of review recommendations, to inform the Minister for Finance about the outcomes of the Programme and support the Secretaries APS Reform Committee.

### Monitoring

2.39 As discussed in the previous section, Finance supported the Committee to regularly monitor individual reviews. Finance also regularly reported to the Minister, and there was ad hoc reporting to other committees, including to the Secretaries Board in June 2015.

2.40 A key measure of performance was the number of reviews completed and key deliverables were that reviews were completed within one month of agreed deadlines. To support performance monitoring, Finance developed a dashboard to report on the progress of reviews. This dashboard included details of the review, its due date and status. Finance prepared 51 dashboards between 21 August 2015 and 27 February 2017. The final dashboard in February 2017 noted that three Contestability Reviews were incomplete.<sup>45</sup>

### Evaluation

2.41 Evaluation and review activities undertaken by Finance have included:

- evaluation of pilot Contestability Reviews;
- a review of Programme and Committee arrangements for the pilot phase (lessons learnt); and
- evaluation of Functional and Efficiency Reviews.

#### *Pilot Contestability Review Evaluation*

2.42 Consistent with evaluation activities and timing identified in the implementation plan, between March and April 2015 Finance's Efficiency Improvement Branch interviewed representatives from four of the pilot contestability reviews. These interviews identified a number of matters for Finance to address with future reviews including a lack of clarity about the

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<sup>45</sup> For a Contestability Review to be categorised as 'completed' in the dashboard it must be considered by the Government, or the Minister for Finance must sign-off on the review.

Programme purpose and arrangements and a lack of guidance and support. Finance developed a list of actions to address these findings.

2.43 Finance has not undertaken a review of Contestability Reviews completed after the pilot phase.

#### *Pilot Phase: Lessons learnt*

2.44 In June 2015, Finance reported to the Secretaries Committee on Transformation on the opportunities and lessons learnt from the Programme. As described by Finance, key lessons learnt (and actions taken by Finance) included:

- a pilot phase to test methodologies. This resulted in refinement of the Programme to focus on Functional and Efficiency Reviews as the key review mechanism, supported by Contestability Reviews of cross-government functions as required;
- the pilot phase demonstrated that a level of independence in undertaking reviews is critical to ensure appropriate challenge of the status quo so that the best results are achieved;
- entities received greater value when they were able to engage with the Committee on their approach and initial recommendations. The role of the Committee evolved from approving and endorsing review documents during the pilot phase to providing guidance and assurance to agencies. Being involved at an earlier stage, the Committee was able to provide strategic guidance and challenge thinking and assumptions to influence the direction and outcomes of reviews; and
- Finance provided additional support for agencies through establishing a Community of Practice and a Govdex page for those agencies engaged with the Programme to share feedback, lessons learnt, knowledge and resources.

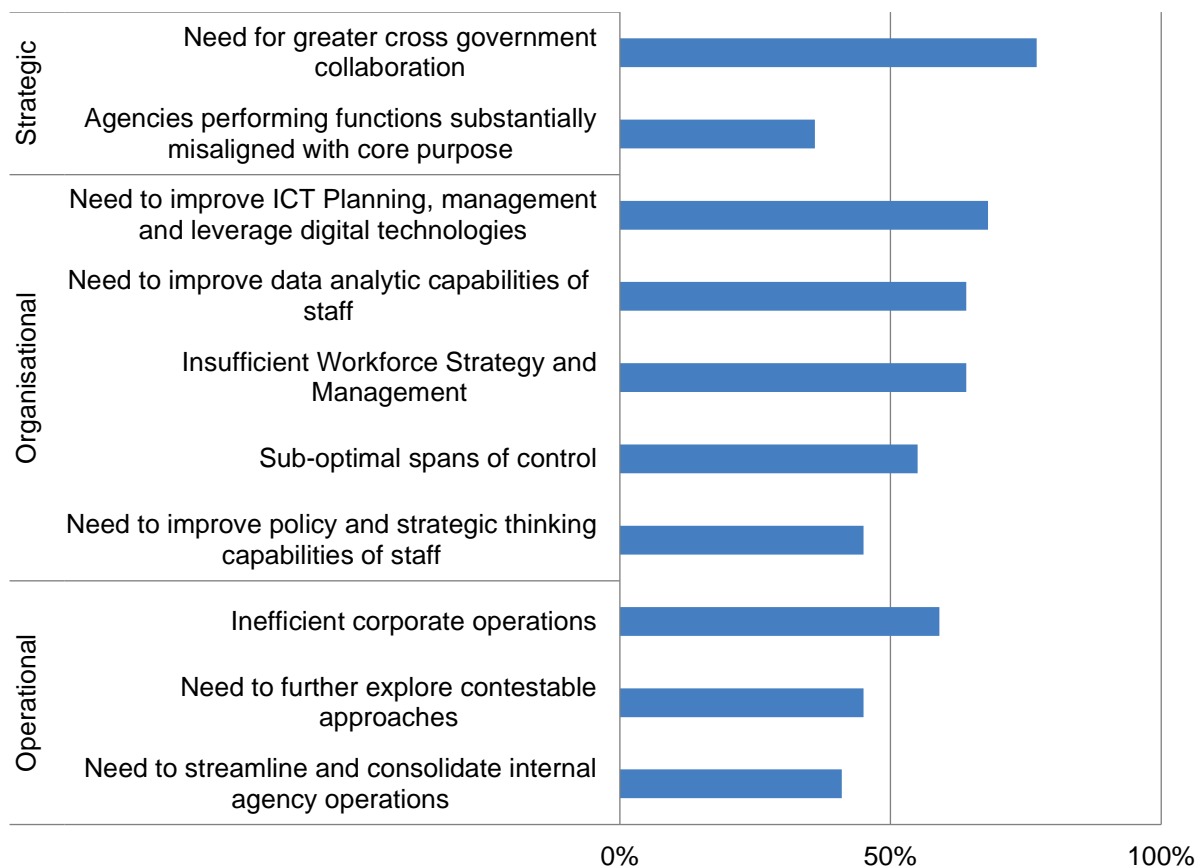
#### *Evaluation of Functional and Efficiency Reviews*

2.45 While Finance has not undertaken a structured evaluation of Functional and Efficiency Reviews, it analysed recommendation themes arising from these reviews in late 2016, as shown in Figure 2.4.<sup>46</sup>

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46 Finance considered that analysis around these common themes may identify areas where savings and efficiencies should be pursued across entities.

**Figure 2.4: Key operational, organisational and strategic issues identified by Functional and Efficiency Reviews**



Source: Finance initial analysis of Functional and Efficiency Reviews.

2.46 Further, in early 2017, Finance’s Efficiency Improvement Branch met with members of the Committee to reflect on Programme outcomes, lessons learnt and the future of the Programme. Table 2.2 provides an overview of key points from these meetings.

**Table 2.2: Summary of assessment of Programme outcomes, early 2017**

Topic	Conclusions
Success of the Programme	<ul style="list-style-type: none"> <li>a) Well received by entities and Secretaries.</li> <li>b) Provided entities with greater clarity of their role, and potential to cease or minimise lower priority work.</li> <li>c) Prompted entities to think about contestability.</li> <li>d) Reviews are a key reference document for strategic planning.</li> <li>e) Further work is required to understand how the Australian Public Service can be more efficient, and embed a culture of willingness to change.</li> <li>f) Members raised questions about how to measure success of efficiency recommendations for the Australian Public Service, noting the common themes of building workforce capability, barriers to delivering core functions, the impact of staff number controls, on-boarding for Shared and Common Services and economies of scale.</li> </ul>

Topic	Conclusions
Functional and Efficiency Reviews	<ul style="list-style-type: none"> <li>a) A useful opportunity for the Australian Public Service to reflect on its core role, however, members noted that many findings were not a surprise.<sup>47</sup></li> <li>b) An independent view sometimes proved beneficial to the overall Review findings by providing visibility and traction on sensitive issues.</li> <li>c) The Reviews lacked consistency with varying degrees of sophistication and commitment, and that some recommendations reflected what was already happening and did not provide any significant additional insight.</li> </ul>
What will help the APS to transform	<ul style="list-style-type: none"> <li>a) Building capability in ICT and critical thinking, data based policy.</li> <li>b) Entities to transition as soon as possible to Shared and Common Services, to support the measurement of benefits and reduce the cost of provision of services to the hosting department.</li> <li>c) Future consideration of other efficiencies that can be found through economies of scale and centralisation in areas such as ICT, Customer Relationship Management systems and procurement.</li> </ul>
Recommendations	<ul style="list-style-type: none"> <li>a) Programme not to continue beyond 30 June 2017, as other reforms are underway (such as shared services and the modernisation fund) that should be delivered prior to a further extension of the Programme.</li> <li>b) The Committee not to continue, with existing governance bodies utilised—such as the Secretaries Committee on Transformation.</li> </ul>

Source: ANAO analysis of Finance documentation.

2.47 Other Finance records also indicate Finance’s assessments of what had worked well and challenges in undertaking the Functional and Efficiency Reviews. For example, these reviews are seen as providing savings to Government, being independent, being an effective tool for repositioning entities and driving change, and fostering cross-agency communication and collaboration. Challenges of undertaking these reviews have included the time taken to engage independent review leaders, balancing considerations of efficiency and effectiveness, Finance’s visibility of the implementation of recommendations, and focusing on departmental activities rather than administered programs. Finance also identified the need for better access to benchmarking data for agencies, and the development of more robust datasets to support cross functional activities.

2.48 Finance has tracked savings arising from Functional and Efficiency Reviews through the Budget process. At the time of the 2017–18 Budget, eight of the 22 Functional and Efficiency Reviews had reduced Budget outlays (see Table 3.1 and Table 3.2).<sup>47</sup> Finance considered that a range of factors have influenced Programme outcomes including: the need for legislative changes to implement some recommendations; partial or incomplete implementation of recommendations; and recommendations that were rejected by the relevant agency and not brought forward for government decision.

<sup>47</sup> It was expected that all Functional and Efficiency Reviews would be considered at the latest as part of the Budget process for 2017–18. At the time of the audit, eight reviews were yet to be considered as part of the Budget process.

## *Programme evaluation*

2.49 On 18 December 2017, the Minister for Finance noted the *Efficiency through Contestability Program: Summary Outcomes Report*. The report identifies significant contributions the Programme has made to savings, efficiencies, effectiveness and supporting Government decision making including:

Over the three years of the Contestability Program, most Commonwealth departments and major entities were considered through the 21 Functional and Efficiency Reviews (the Reviews), under the Contestability Program. Announced outcomes of the Contestability Program have achieved savings of around \$5 billion from 2014–15 to 2020–21.

These financial savings contribute to the Budget bottom line. In addition, the reviews are contributing to the efficient operation of Government through departmental efficiency and effectiveness. The Reviews have shaped the strategic directions for a number of entities, generated internal efficiencies, and driven more collaborative use of initiatives across Government. This includes the Department of Veterans' Affairs (DVA) leveraging the Department of Human Services (DHS) Information Technology platforms, a whole-of-government approach to data through the Data Integration Partnership for Australia (DIPA), and the DHS Cooperative Procurement Program for Communication Products and Services for 58 entities.

The findings and recommendations from the Contestability Program will continue to inform the Government's decision on key policy initiatives. These initiatives include: future directions on improving public sector productivity; implementing the Murray Darling Basin Plan; improving the resilience of the Bureau of Meteorology; and, DVA Veteran Centric Reform.

2.50 The evaluation also commented on lessons learnt, stating that:

- there was variability between reviews in their focus on efficiency and effectiveness—this may have been addressed by a more clearly defined scope at the outset of the review including a savings target;
- the cost of the reviews were met within entities existing budgets, reviews were resource intensive and it was not recommended that Reviews be undertaken regularly, or that a rolling program of Reviews be established;
- entities undertaking reviews later in the Programme were able to leverage off independent consultants who had developed a process for undertaking reviews and the experiences of other entities that had been through the process, including having access to whole-of-government benchmark data, obtained and verified by entities that had completed reviews; and
- the value of Contestability Reviews was limited by the variability of functions between agencies and as a result opportunities for efficiencies were limited. The topics of Contestability Reviews included outsourcing survey management functions, workforce management, rescue and fire-fighting services, property services, management of insurable risk, communications functions, anti-doping sample collection and analysis, records management, policy advice, social services to citizens and the interface between government and business.

2.51 In conducting the evaluation, Finance did not include detailed analysis of the implementation of recommendations. Chapters 3 and 4 of this report provide commentary on the savings and benefits from the Programme.



2.52 Finance advised the ANAO in January 2018 that:

- the Outcomes Report will be provided to responsible Secretaries and Accountable Authorities as part of the finalisation of the Contestability Programme.
- Finance was undertaking a stocktake of the implementation status of all recommendations arising from the reviews undertaken through the Contestability Programme. This work will inform the Minister for Finance about the outcomes of the Programme and support the work of the Secretaries APS Reform Committee.

### 3. Review recommendations, savings and costs

#### Areas examined

The ANAO examined whether all reviews supported entities to design initiatives to improve the efficient delivery of government functions and make recommendations to Government on implementation arrangements. This included consideration of whether reviews were undertaken in accordance with agreed work programmes, and recommended efficiency savings exceeded the cost of undertaking the reviews.

#### Conclusion

While often not following Programme guidelines, the reviews made a large number of recommendations to improve delivery of government functions and/or increase operational and administrative efficiencies, but did not often propose market based improvements. Many recommendations have been accepted or are being considered by Government, and the projected total net savings to Budget greatly exceed the cost of conducting the reviews.

#### Areas for improvement

The benefits of recommendations could have been improved by: reviewers limiting the total number of recommendations made and focusing on key recommendations to improve efficiency of departmental activities; and the reviews making greater use of entity performance data or benchmarks to estimate efficiencies claimed.

3.1 As discussed previously, the Minister for Finance commissioned 22 Functional and Efficiency Reviews and 12 Contestability Reviews for the Programme (see Appendix 3). One<sup>48</sup> of the commissioned reviews was not undertaken as a separate Contestability Review—leaving 11 Contestability Reviews to be examined. This chapter examines aspects of compliance, cost and the extent to which the recommendations from these 33 reviews have been accepted.

#### Were reviews completed in accordance with Programme guidelines and terms of reference?

The conduct of reviews was compliant with many, but not all, expectations in the *Contestability Programme Guidelines* and review terms of reference. Less than half of the 22 Functional and Efficiency Reviews met planned timeframes for consideration by the responsible Minister and/or Government, and few reviews were assessed as meeting the terms of reference. Review reports generally did not include benchmarks to demonstrate efficiencies or assessments to evaluate the benefits of implementation. Transition arrangements to implement recommendations, where included in review reports, were not specific or detailed.

3.2 When undertaking reviews, a range of expectations were established in the guidelines, as well as generic and individual terms of reference for Contestability and Functional and Efficiency Reviews. These expectations, and the extent to which entities satisfied them, are discussed below.

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48 Ministerial and parliamentary services was completed as part of the Finance Functional and Efficiency Review. The Ministerial and parliamentary services review has been excluded from the analysis in this chapter.

## Conducting the review process

3.3 The terms of reference established the aim, scope, timing, governance and resourcing arrangements for Functional and Efficiency Reviews and Contestability Reviews. Generic terms of reference for Functional and Efficiency Reviews were agreed by Government and specific terms of reference were to be agreed by Finance and the entity.<sup>49</sup> An exception to this was that the Contestability Programme Steering Committee was to approve the terms of reference for Contestability Reviews. Timeframes for each Contestability Review and Functional and Efficiency Review were to be settled in individual terms of reference. An independent review leader or independent evaluator was to be appointed, with the agreement of Finance for all Functional and Efficiency Reviews and Contestability Reviews, respectively. Finally, responsible Secretaries were to ensure completion of Contestability Reviews, while responsible Ministers were to ensure the completion of all Functional and Efficiency Reviews.

### *Functional and Efficiency Reviews*

3.4 Terms of reference were agreed between Finance and entities for 19<sup>50</sup> of the 22 Functional and Efficiency Reviews.

3.5 Inconsistencies were observed in the approaches adopted for endorsing the independent review leaders:

- the Minister for Finance<sup>51</sup> endorsed the review leader for sixteen reviews;
- Finance<sup>52</sup> endorsed the review leader for five reviews; and
- it is unclear whether endorsement was given for one review. For the review of the Department of Environment and Energy, Finance agreed that endorsement would be inferred when the entity's Minister wrote to the Minister for Finance nominating the independent review leader.<sup>53</sup>

49 When the Minister for Finance wrote to the responsible Minister(s), the letter indicated that the terms of reference were to be agreed by the Minister responsible for the Functional and Efficiency Review, specifically: *Draft Terms of Reference for this Review are attached for your agreement*. The Finance Secretary advised the Responsible Secretaries that they would have the opportunity to influence specific terms of reference before they were agreed at Ministerial level.

50 During the pilot phase of the Programme, the Department of Health and the Department of Education and Training were advised that the terms of reference were agreed by Government and separate agreement from these entities was not sought by Finance. Further, there was no documentation demonstrating that the Minister or the Department of Industry, Innovation and Science agreed to the terms of reference. The Department of Industry, Innovation and Science advised that the terms of reference were agreed with Finance by email at the Deputy Secretary level.

51 In many cases endorsement of the independent review leader included a signed letter to the relevant Minister from the Minister for Finance or a signed briefing to the Minister for Finance. It also included instances where Finance's internal briefings or emails stated that the Minister's Office had endorsed the appointment, and where an independent review leader had been appointed prior to agreement from Finance and the Minister for Finance subsequently requested the entity appoint an endorsed peer reviewer.

52 This endorsement included Finance staff from the Programme area indicating support for the proposed independent review leader and/or an endorsement from the Secretary of Finance.

53 Finance included a caveat that in principle agreement needed to have been reached between the Secretaries and Minister's offices prior to the letter being sent. There was no record of agreement between the offices prior to the letter being sent.

3.6 Five entities contracted a review leader prior to receiving endorsement for the appointment of the candidate by Finance.<sup>54</sup> The Department of Infrastructure and Regional Development appointed a review leader prior to Finance endorsement, and in response Finance nominated and the department then engaged a peer reviewer for the review. Another five entities did not provide to the ANAO contracts or agreements and did not report the agreement on AusTender.<sup>55</sup>

#### Timeframes

3.7 The time taken (on average 109 days) to agree the terms of reference, and nominate, receive Finance's endorsement and appoint an independent review leader left entities with an average 113 days (16 weeks) to complete the review. Some entities had particularly limited timeframes to complete their review after agreeing terms of reference (the Australian War Memorial—14 days), nominating their independent review leader (Bureau of Meteorology—24 days) or endorsing the independent review leader (Australian Federal Police<sup>56</sup>—35 days after receiving endorsement from Finance). These entities were not able to complete reviews by the completion date proposed by the Minister for Finance and required extensions. In April 2018 Finance advised the ANAO that it assisted entities to conduct preparatory work concurrently to the appointment of an independent review leader to facilitate timely conduct of the reviews and, where appropriate, facilitated requests for extensions.

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54 The five entities that contracted a review leader prior to receiving endorsement for the appointment of the candidate by Finance were the Department of Agriculture and Water Resources, Attorney-General's Department, the Department of Social Services, the Department of Infrastructure and Regional Development, and the Australian Taxation Office. The Attorney-General's Department advised Finance of its intention to have the independent review leader commence prior to the agreement of the Attorney-General and the endorsement of the Minister for Finance, and of the mitigation strategy it would employ if either minister did not support the appointment. The Department of Immigration and Border Protection indicated that it engaged with Finance at the Deputy Secretary level and received positive feedback on the proposed reviewer—the Minister for Finance had endorsed the appointment of the independent review leader prior to the entity proposing or entering into a contract with the review leader. There is no evidence of written endorsement being provided to the entity prior to the entity contracting with the review leader.

55 The five entities that did not provide contracts or agreements for independent review leaders and did not report the agreement on AusTender were the Department of Education and Training, Department of Finance, Department of Foreign Affairs and Trade, Department of the Treasury, and Department of Immigration and Border Protection. The Department of Education and Training and the Department of Foreign Affairs and Trade did not establish an agreement with the review leader as there was no fee for services. The Department of Finance and Department of Immigration and Border Protection advised that Mr Smith's appointment as independent review leader for each entity's Functional and Efficiency Review was the result of the Minister enacting his executive power to employ a review leader—Ministerial appointments are not procurements and not reported on AusTender. Instead, the Department of Immigration and Border Protection published contract details under the Senate Order on entity contracts, which can be accessed via the Home Affairs website (<https://www.homeaffairs.gov.au/busi/engaging-with-the-department/contracts-and-tenders/senate-order>).

56 The review was commissioned by the Minister for Finance on 20 April 2016 (see Appendix 3) for completion by 30 September 2016. The Australian Federal Police advised that delays in recommending and endorsing an independent review leader were due to:

- availability of suitable candidates (the Australian Federal Police nominated an independent review leader on 21 July 2016);
- a delay in receiving endorsement from Finance (the Secretary of Finance advised the Australian Federal Police of the Minister for Finance's endorsement on 26 August 2016, the Minister for Finance had agreed to endorse the Independent Review Leader on 16 August 2016); and
- the 2016 Federal Election (the Election was announced on 8 May 2016, held on 2 July 2016 and the return of writs was due on 8 August 2016).

The review was completed on 25 November 2016—13 weeks after endorsement.

3.8 Terms of reference required Functional and Efficiency Review reports to be presented to the responsible Minister and the Minister for Finance by the agreed completion date and the guidelines required the responsible Secretaries to advise the Minister on all aspects of the Programme including recommendations. Further, the terms of reference specified the financial year and Budget process (Budget or Mid-Year Economic and Fiscal Outlook) in which the outcomes of the review should be considered—which was generally within four to eight weeks of the completion date. Timeframes agreed in terms of reference for the completion of each review varied between 147 and 396 days from the commissioning letter being sent (on average reviews were to be completed within 222 days [32 weeks] of commissioning). After the terms of reference had been agreed, nine entities required extensions to the agreed completion date during the review process.<sup>57</sup>

3.9 Figure 3.1 shows that 13 of the 22 reviews were presented to the Minister within the planned completion timeframe, while nine reviews were presented to the Minister after the planned completion date. Six entities briefed their Minister immediately on the entity's position in regard to the Functional and Efficiency Review recommendations<sup>58</sup>, while other entities took up to 320 days<sup>59</sup> to brief their Minister on their position, and the Australian Federal Police is yet to brief its Minister on its position.<sup>60</sup> Prior to the completion of the Functional and Efficiency Review, some entities briefed the Responsible Minister on draft report recommendations.<sup>61</sup>

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57 The nine entities that sought extensions were the: Department of the Prime Minister and Cabinet, Department of Industry, Innovation and Science; Department of Environment and Energy; Finance; Bureau of Meteorology; Australian Federal Police; Department of Veterans' Affairs; Australian War Memorial; and Department of the Treasury.

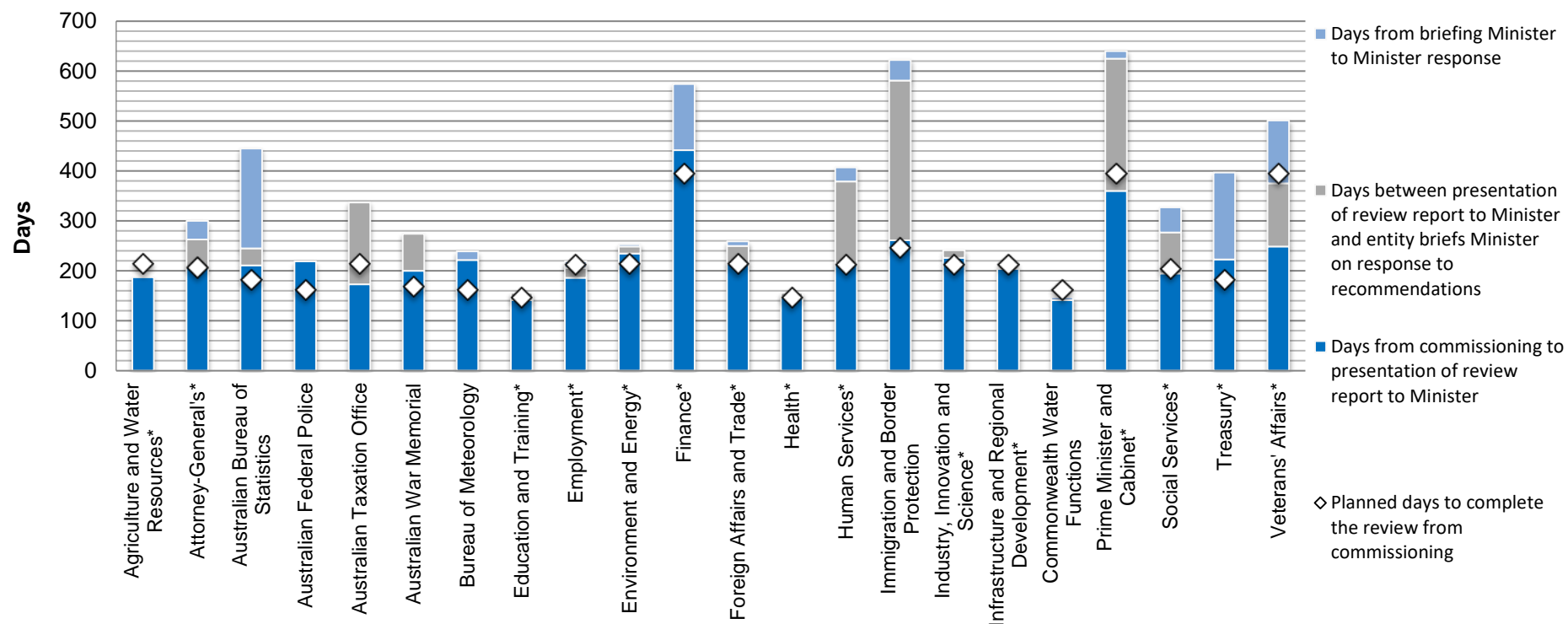
58 The following entities briefed the relevant Minister immediately on review recommendations: Department of Agriculture and Water Resources; Bureau of Meteorology; Department of Finance; Department of Infrastructure and Regional Development; Department of Environment and Energy for the Commonwealth Water Functions; and Department of the Treasury.

59 The Department of Immigration and Border Protection took 320 days to brief the responsible Minister on responses to the Functional and Efficiency Review recommendations. The department advised that consultation about the outcomes of the review was consistently undertaken with the Minister's Office in the context of agreeing the Budget proposals to be taken forward in the 2017–18 Budget.

60 On 2 December 2016, the Commissioner for the Australian Federal Police wrote to the Minister for Justice providing a copy of the Functional and Efficiency Review and advising that the review made 18 recommendations spanning the AFP's role, governance, service delivery, demand management and funding model. The correspondence notes that the Australian Federal Police will actively seek to consider and progress relevant review recommendations. This correspondence and subsequent correspondence does not provide an indication of the Australian Federal Police's response to and level of support for the recommendations.

61 For example, on 29 March 2016 the Department of Human Services briefed the Minister on whether new policy proposals would need to be made as part of the 2016–17 Budget process to implement review recommendations. The Minister responded on 31 March 2016, and the report was not completed until 1 April 2016.

**Figure 3.1: Elapsed time to complete reviews and brief responsible Ministers on review recommendations**



Note a: Entities marked with an \* are Departments of State.

Note b: Due to the Administrative Arrangements Order amendments introduced on 20 December 2017, the Department of Employment became the Department of Jobs and Small Business; the Department of Infrastructure and Regional Development became the Department of Infrastructure, Regional Development and Cities and the Department of Immigration and Border Protection became the Department of Home Affairs.

Note c: Dates presented in this figure for the Commonwealth Water Functions Review relate to the Minister for Environment and Energy.

Note d: For six entities, the relevant Minister responded to the briefing on Functional and Efficiency Review recommendations on the same day the Minister received the briefing for the Functional and Efficiency Review of the: Department of Agriculture and Water Resources; Australian Taxation Office; Australian War Memorial; Department of Education and Training (for both Stage 1 and 2 reports); Department of Health; and Department of Industry, Innovation and Science. Similarly, the relevant Minister responded to a briefing on the Functional and Efficiency Review recommendations within seven days of receiving the briefing for reviews of the: Department of Infrastructure and Regional Development; Department of Environment and Energy; and the Commonwealth Water Functions.

Source: ANAO analysis of entities' documentation.

3.10 On average, 71 days (10 weeks) elapsed from the date the Minister was presented with the review report until entities briefed their Minister on their response to the recommendations—which did not meet the timeframe for consideration of report outcomes in the agreed Budget process. The consideration of nine<sup>62</sup> entities' Functional and Efficiency Review recommendations were deferred from the 2016–17 Mid-Year Economic and Fiscal Outlook until the Budget 2017–18. Only one of these entities (Department of the Treasury) demonstrated that recommendations from its review were considered during the Budget process 2017–18. For the remaining entities, Finance advised the ANAO that:

- consideration will occur in a later period for four entities<sup>63</sup>;
- the recommendations did not require a decision of the Government through the Budget process for two entities—Department of the Prime Minister and Cabinet, and Department of Finance;
- the 2017–18 Budget measure, Maintaining Australia's Optical Astronomy Capability, was referenced in the Functional and Efficiency Review for the Department of Industry, Innovation and Science; and
- The Department of Immigration and Border Protection advised that four of the department's review recommendations were considered during the 2017–18 Budget process. A number of the review recommendations have been superseded by the creation of the Home Affairs portfolio, although other recommendations may assist with identifying financial and average staff level savings once the portfolio is established.

### *Contestability Reviews*

3.11 For most Contestability Reviews, insufficient documentation was maintained to demonstrate adherence to programme expectations. An independent evaluator or independent review leader was not appointed for three reviews, and there was little evidence of Finance agreeing the selection of the independent evaluator or reviewer for the remaining reviews.<sup>64</sup> Reviews also did not have consistent governance arrangements—only five reviews were required to provide the final reports to Contestability Programme Steering Committee.<sup>65</sup> Final reports were also required to be provided to one or more of the following parties: Finance and/or the responsible Secretary; Minister for Finance; and/or the responsible Minister.

62 The entities were: Department of the Prime Minister and Cabinet; Finance; Department of the Treasury; Department of Veterans' Affairs; Australian War Memorial; Department of Immigration and Border Protection; Australian Federal Police; Bureau of Meteorology; and Australian Bureau of Statistics.

63 Australian Federal Police (2017–18 Mid-Year Economic and Fiscal Outlook process); Department of Veterans' Affairs, including the Australian War Memorial component (2018–19 Budget process); Australian Bureau of Statistics (2019–20 Budget process); Bureau of Meteorology (2018–19 Budget process).

64 Where Finance was the lead agency for the Contestability Review, it could be considered that Finance had endorsed the independent candidate. This was not consistent with Finance's approach to its own Functional and Efficiency review where there was supporting documentation for Finance endorsement.

65 Some reviews were not required to be reported through the Contestability Programme Steering Committee during the conduct of the review. For example, the More Efficient and Streamlined Business Processes review was moved to a separate governance committee.

3.12 For the 11 Contestability Reviews, entities had, on average, 229 days (33 weeks) from commissioning to the planned completion date—only one review met the planned completion date and most reviews sought extensions.<sup>66</sup>

3.13 The *Contestability Programme Guidelines* required the responsible Secretary to advise the responsible Minister on any recommendations, and the Minister in turn to make recommendations to the Government or the Prime Minister on review outcomes. Two review reports were not presented to the responsible Minister. The responsible Minister was not briefed on the entity's response to recommendations for four reviews and for another two reviews the responsible Minister was briefed on the entity's response prior to the completion of the review. On average across the 11 reviews, 93 days (13 weeks) elapsed from the planned completion of a review report to presentation of the report to the responsible Minister.

## Methodology

3.14 A report structure was not specified but guidelines clearly indicated that entity reports for Functional and Efficiency Reviews address the following lines of inquiry: alignment of entity functions with the government's forward priorities and commitments; barriers to achievement; feasibility and efficiency of alternative approaches; and a transition path for implementation. A robust assessment of the feasibility and efficiency of alternatives would usually include benchmarking.

3.15 Most Functional and Efficiency Reviews involved interviews with key entity staff and stakeholders as well as a review of entity documentation. Review reports indicated that the review methodology was designed to address key lines of inquiry. In practice, few reviews demonstrated feasibility and efficiency of alternative delivery models, included benchmark data, or transition plans. Few review reports were structured such that they clearly addressed each line of inquiry. While review reports made comparisons to other jurisdictions, including international counterparts, often entities were unable to provide data to support benchmarking within the timeframe of the review. Similar results were observed for Contestability Reviews, with few reviews drawing on a robust performance measurement system supported by benchmarks.

## Did reviews recommend efficiencies and performance improvements to Ministers?

The Programme proposed many recommendations to improve the efficient delivery of government functions. A total of 960 and 74 recommendations were made across 22 Functional and Efficiency Reviews and 11 Contestability Reviews respectively. Recommendations often focused on internal system improvements such as structural change, streamlining processes, and adopting improved products and services. Relatively few recommendations were made to cease functions or identify opportunities for alternative providers of the function, and market based improvements almost exclusively focused on outsourcing.

3.16 It was expected that Functional and Efficiency Reviews and Contestability Reviews would make recommendations to improve the contestability, efficiency and performance of government

<sup>66</sup> A review report on the second phase of the Provision of Policy Advice to Government Contestability Review was not complete at the time of the audit. A completion date for this review was not established in the terms of reference.



functions. When considering the potential to improve how efficiently an objective was achieved, the reviews were to consider a spectrum of possible arrangements (see Table 1.1), both within and beyond the boundary of government.

## Functional and Efficiency Reviews

3.17 The 22 Functional and Efficiency Reviews made 960 recommendations—an average of 44 recommendations per review. There was a large disparity in the number of recommendations made per review—from 17 for the Department of Industry, Innovation and Science to 90 for the Department of Health.<sup>67</sup> All reviews made a relatively large number of system improvement recommendations (655 recommendations, 68 per cent), and made relatively few engagement or market based improvement recommendations (149 and 104 recommendations, 26 per cent across both).<sup>68</sup> This meant the majority of recommendations were on internal operations, such as structural change, streamlining processes, and adopting improved products and services. The market based improvement recommendations focused on outsourcing. The following box provides examples of the system, engagement and market recommendations made in Functional and Efficiency Reviews.

### Examples of recommendations made in Functional and Efficiency Reviews

#### System improvement recommendations

- Department of Foreign Affairs and Trade streamline aid administration processes and delivery of overseas remuneration packages, and centralise learning and development and financial back office operations.
- Department of Social Services develop an enterprise compliance framework.

#### Engagement improvement recommendations

- Department of Foreign Affairs and Trade consider state office co-location of portfolio agencies where feasible (when leases expire), have well defined and measureable Service Level Agreements for purchasing organisations and revise contract arrangements for outsourced recruitment support provider.
- Department of Social Services continue to progress work to become a provider of grants administration services for other Commonwealth departments as part of the Digital Transformation Agenda and extend grant administrations services to include network operations.
- Department of Health better leverage the capability and expertise of the specialist Portfolio Agencies and cease any unnecessary duplication of effort; while retaining capability to place the advice of these agencies in a broader strategic context, and seek opportunities to integrate health workforce and appropriate Aboriginal and Torres Strait Islander programmes with Primary Health Networks as they commence.

67 The Department of Education and Training Functional and Efficiency Review was the only review to be undertaken in two stages and resulted in six reports with a total of 68 recommendations.

68 In addition to system, engagement and market improvements, there were other types of recommendations, including ceasing functions, further review and continuing existing arrangements.

#### **Market improvement recommendations**

- Department of Foreign Affairs and Trade use an industry association or private sector body to provide information to business on how to use free trade agreements, market test passport services and further outsource public diplomacy activities.
- Department of Social Services outsource core transactional corporate services through the Shared and Common Services Program (where they are assessed as being more efficient if they are contestable).
- Department of Health to develop detailed business cases, including market testing and a detailed cost benefit analysis, to assess whether alternative delivery methods should be pursued for some functions currently performed by the department.

3.18 All Functional and Efficiency Reviews recommended efficiency and performance improvements (see Figure 3.2). To support contestability and efficiency, most reviews made recommendations identifying other internal or external areas that could provide the function.<sup>69</sup> Functional and Efficiency Reviews were to consider the role of the entity and whether current functions performed aligned with government forward priorities and policy commitments. As a result, most reviews recommended a number of functions be ceased. In particular, three recommendations of the Department of Education and Training review identified 42 programmes that should cease. A number of Functional and Efficiency Reviews<sup>70</sup> recommended further review.

#### **Contestability Reviews**

3.19 The 11 Contestability Reviews made a total of 74 recommendations. More recommendations focused on system improvements (37 recommendations, 50 per cent) than engagement or market based improvements (18 and seven recommendations, 34 per cent). Consistent with these findings, in January 2015 during the pilot phase of the Programme, the Finance Secretary was advised that:

... To date, the potential improvements identified through the Reviews indicate that entities have primarily identified process improvements which will not require Government approval to implement. These improvements will likely generate systems and process efficiencies; however, at this stage these improvements are unlikely to generate any noteworthy savings in the context of the 2015–16 Budget ...

3.20 The following box provides examples of the system and market recommendations made in Contestability Reviews.

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69 Only three reviews did not identify opportunities for another internal or external provider to deliver the function—the Australian Bureau of Statistics, the Australian War Memorial and the Department of the Prime Minister and Cabinet.

70 These reviews included the Department of the Treasury, the Department of Immigration and Border Protection, Commonwealth Water Functions, and the Department of Environment and Energy.

### Examples of recommendations made in Contestability Reviews

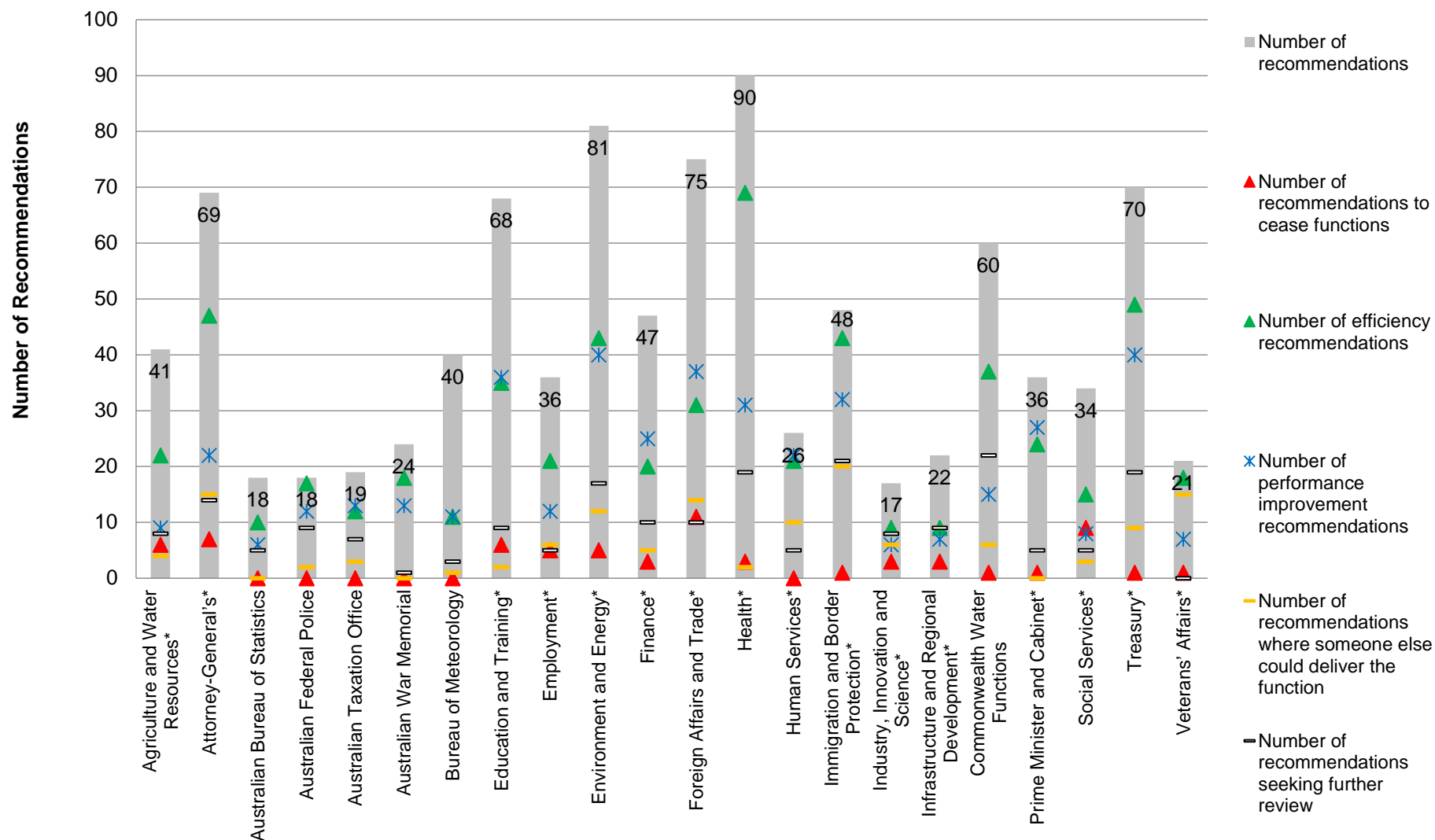
An example of a system improvement from the Management of the Commonwealth's Insurable Risk Contestability Review was for the Department of Veterans' Affairs to consolidate and upgrade the claims IT system which is currently a key barrier to further efficiency improvement.

An example of a market based improvement recommendation from the Management of the Commonwealth's Insurable Risk Contestability Review was for Comcare to outsource the management of claims for selected entities.

3.21 In the case of some reviews, such as Commonwealth Property Services, Provision of Policy Advice to Government, and the Delivery of Social Services to Citizens, the recommendations indicated that further review, for example through scoping studies or further market testing, must occur.

3.22 Most Contestability Reviews recommended efficiency and performance improvements (see Figure 3.3). More recommendations focused on efficiency improvements than performance improvements; however, both types of improvement were proposed. The intent of Contestability Reviews was to examine how identified functions could be best delivered through alternative means. All but one of the Contestability Reviews considered further contestability options that would involve an alternative method of delivering the functions.

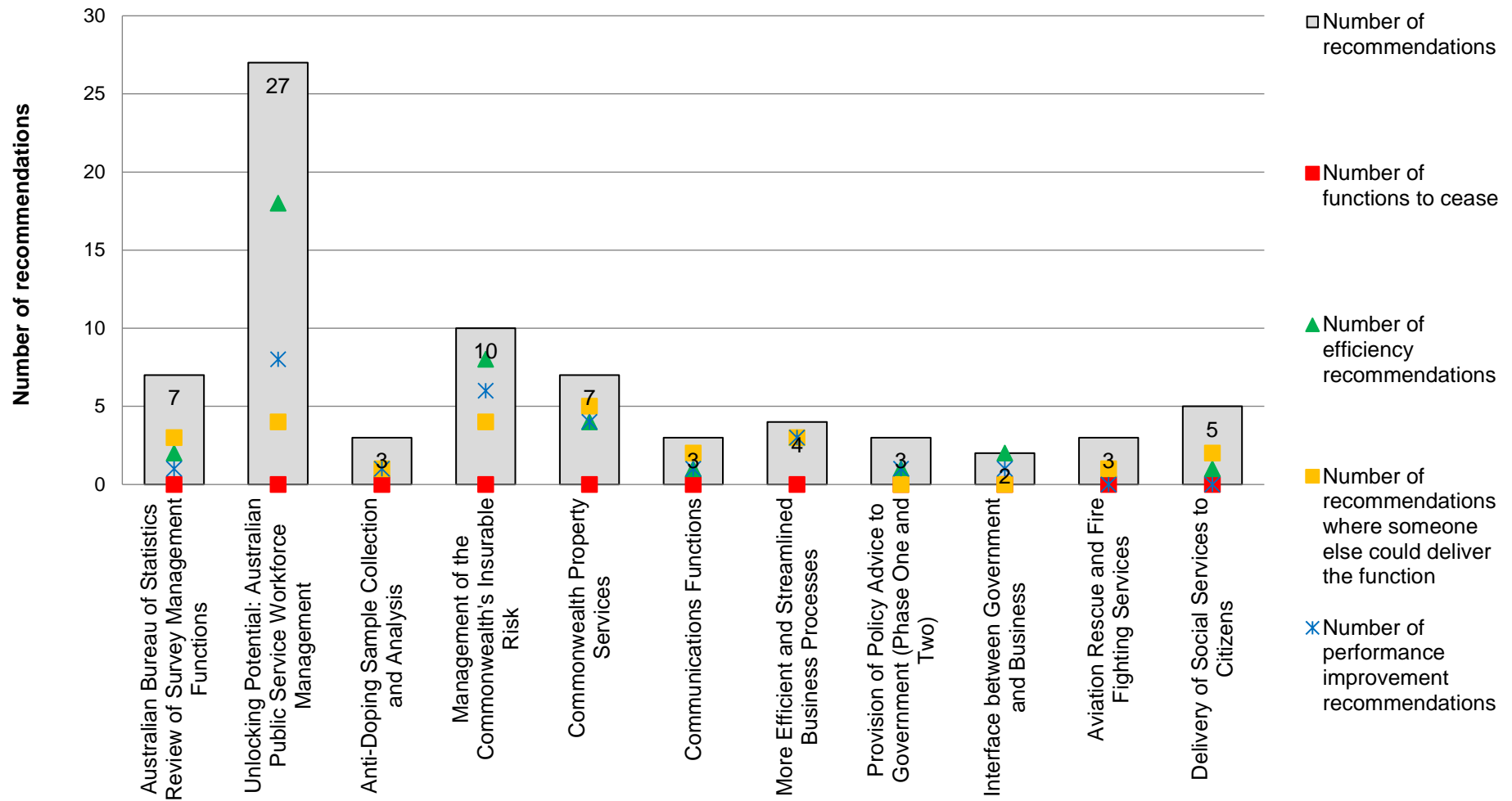
**Figure 3.2: Functional and Efficiency Reviews: efficiency and performance improvements**



Note a: Entities marked with an \* are Departments of State.

Source: ANAO analysis.

**Figure 3.3: Contestability Reviews: efficiency and performance improvements**



Source: ANAO analysis.

## Were review recommendations considered?

Responsible Accountable Authorities generally considered all Functional and Efficiency Review recommendations, and supported or agreed, agreed in part, or in principle, a substantial majority (73 per cent) of those recommendations, and the relevant Minister considered and largely endorsed entities' positions. Approximately one quarter of all recommendations were considered by Government, and generally focused on reducing expenditure or generating income. Few recommendations from these reviews were rejected by Accountable Authorities (68 recommendations, seven per cent), Ministers (79 recommendations, eight per cent) or the Government (35 recommendations, four per cent). Similarly, very few recommendations (three recommendations, four per cent) from Contestability Reviews were rejected, and the Government either accepted or is considering over half of all recommendations from these reviews. However, for three of the 11 Contestability Reviews, the responsible Minister had not considered recommendations, and recommendations from four Contestability Reviews were not considered by the Government.

### Functional and Efficiency Reviews

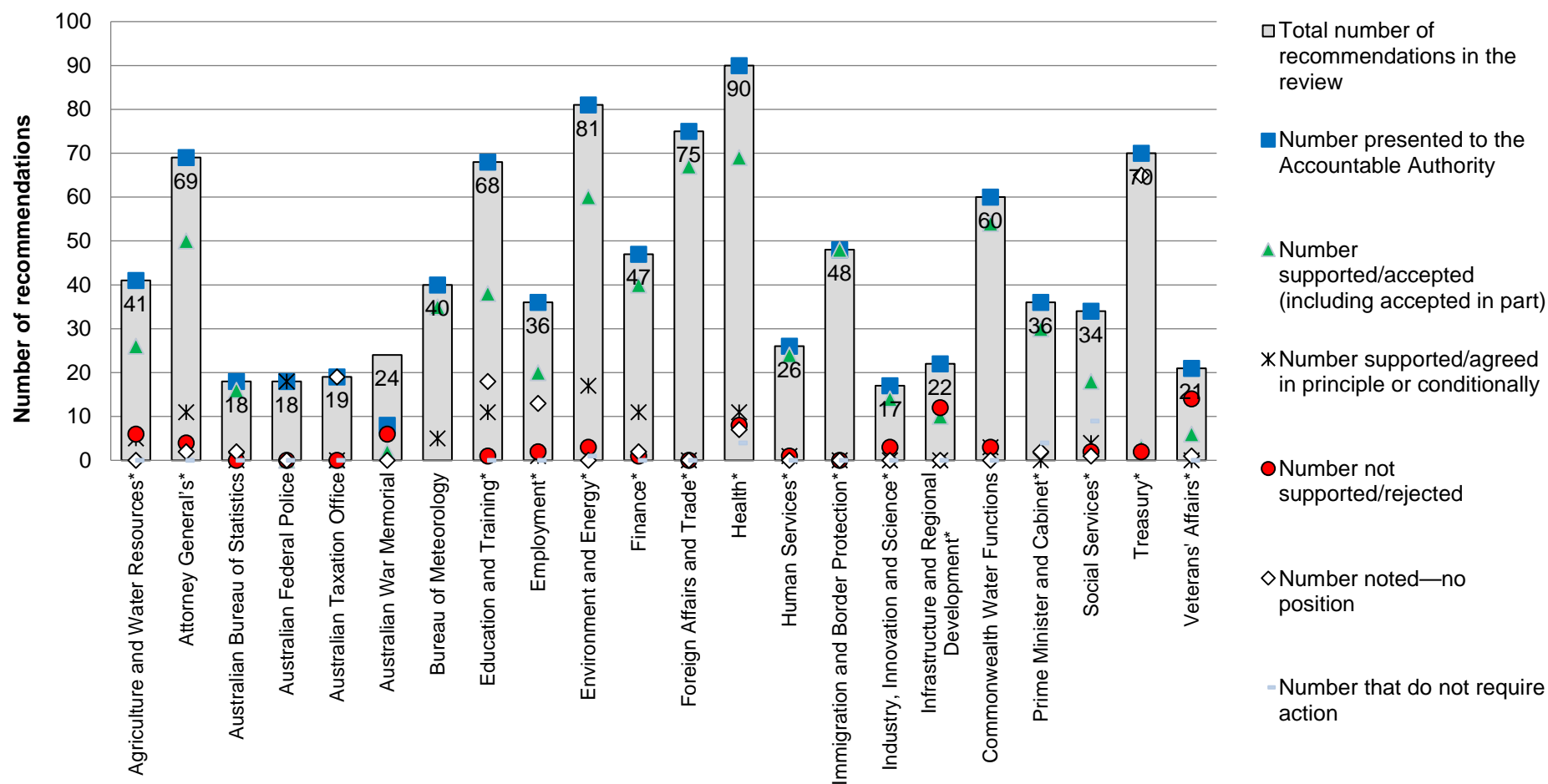
3.23 The *Contestability Programme Guidelines* described processes to review recommendations and defined the roles and responsibilities of key personnel. The Accountable Authority was to advise their Minister(s) on all aspects of the Programme including any report recommendations and planned implementation arrangements; the responsible Minister was to seek approval from the Government or the Prime Minister to progress any recommendations to cease functions, or make legislative changes; and any proposed legislative changes were to be decided by the Parliament. The figures in this chapter indicate consideration of Functional and Efficiency Review recommendations: firstly by the Accountable Authority (Figure 3.4); subsequently by the relevant Minister/s (Figure 3.5); and finally by the Government (Figure 3.6).

3.24 Accountable Authorities broadly endorsed Functional and Efficiency Review recommendations (Figure 3.4). At least one recommendation was rejected by the Accountable Authority in 13 of the 22 reviews. For five of the 13 reviews, the Accountable Authority rejected more than 10 per cent of all recommendations.<sup>71</sup> Rejected recommendations tended to be those outside the sole control of the entity. For example: recommendations to transfer a function, cease funding or alter the entry requirements or entitlements of a program; when savings were estimated to be less than projected income; and where recommendations were inconsistent with stated government policy. In rejecting recommendations, entities submitted clear reasons and often advised the Minister of a possible alternative or agreed to conduct further research and report back.

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71 The Australian War Memorial—13 per cent; the Department of Agriculture and Water Resources—15 per cent; the Department of Employment—19 per cent; Department of Infrastructure and Regional Development—54 per cent; and the Department of Veterans' Affairs—66 per cent.

**Figure 3.4: Functional and Efficiency Reviews: recommendations presented to the Accountable Authority**



Note a: Entities marked with an \* are Departments of State.

Note b: In December 2017, the Australian Federal Police advised that there was no formal briefing paper to the Commissioner (the Accountable Authority). Immediately following the Review all Senior Executive Members read the report and meet at a specific Executive Leadership Committee to discuss the report in detail. It was agreed at that meeting that the entity would agree to all recommendations in principle; subject to Ministerial endorsement/confirmation. Ministerial endorsement has not been sought.

Note c: Australian War Memorial had eight recommendations directed at its Minister and a further 16 recommendations for the Accountable Authority.

Source: ANAO analysis.

3.25 Almost all entities clearly briefed their Minister/s on each recommendation. One entity (Treasury) determined it was the responsibility of the entity to assess recommendations of an operational and/or administrative nature and to address these independently. Consequently, Treasury provided only those recommendations considered to require a Government decision to the Minister, with supporting documentation.

3.26 Ministers usually supported the entity's endorsement or differed on a small number of recommendations, as shown in Figure 3.5. For example, the Minister for Small Business accepted 14 of the 16 recommendations supported by the Australian Bureau of Statistics; the Attorney-General accepted 44 of the 50 recommendations supported by the department. Occasionally, the views of entities and their Minister noticeably differed—the Minister for the Environment accepted 39 of the 60 recommendations supported by the entity; the Minister for Health accepted 13 of the 69<sup>72</sup> recommendations supported by the entity; and the Minister for Industry, Innovation and Science and the department accepted 14 of the 17 review recommendations, although, as the review was conducted for the Ministers, the department advised the recommendations were not necessarily for acceptance/rejection by the Accountable Authority.

3.27 Recommendations supported by Ministers included a small number that would return savings to the Budget. These included proposals that would, if approved, generate income from introducing or increasing a fee, and cease a program and accrue savings. In many instances, the value of the recommendation could not be directly attributed to efficiency or performance improvements.

3.28 Recommendations presented to Government were relatively few, as shown in Figure 3.6. Many recommendations were administrative in nature and did not require Government consideration.<sup>73</sup> In some cases, Government decisions after the completion of the reviews signalled that certain recommendations were inconsistent with Government policy. In other cases, significant work was needed prior to presenting the recommendation to Government, or Government had already deliberated on the recommendation in response to separate submissions prior to the completion of Functional and Efficiency Reviews.<sup>74</sup> Recommendations presented to Government were generally modified from the original recommendation, and focused on reducing expenditure or generating income. In some cases, recommendations that had been accepted by Government required changes to legislation, which were being progressed through Parliament. For example, two recommendations from the Department of Social Services Functional and Efficiency Review have been presented to Parliament in an amendment Bill to the *Social Security Act 1991*.

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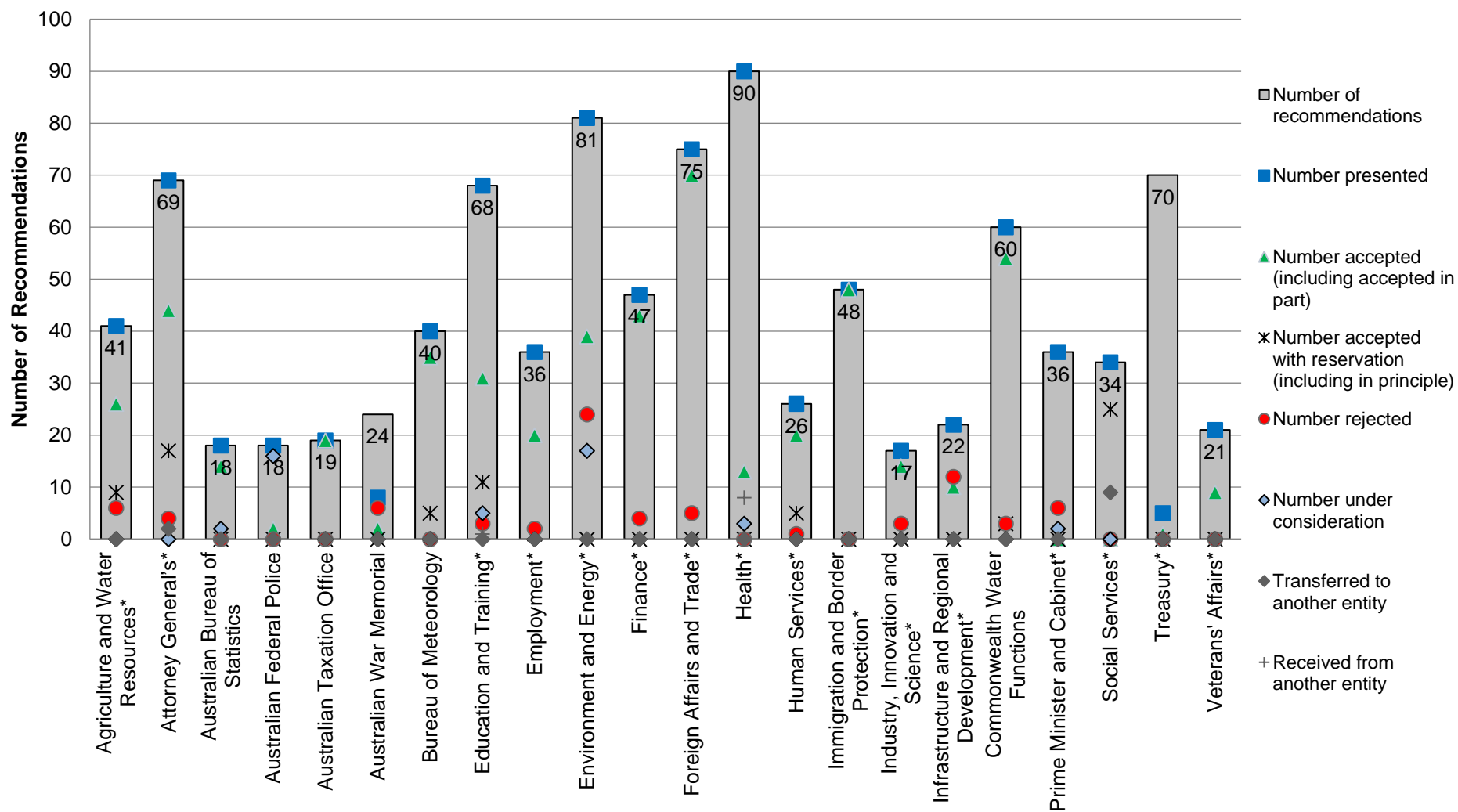
72 Initially, Health advised the Minister that it accepted one of the 90 recommendations, and agreed in principle to a further 79 recommendations. Subsequently, as part of the Health Capability Programme, the department revised its position, accepting 69 of the 90 recommendations.

73 For example, in responding to the Functional and Efficiency Review, Health and its responsible Minister advised the Government that at least 56 of the 90 recommendations were administrative in nature.

74 For example, a number of recommendations (eight) from the Functional and Efficiency Review of the Department of Employment were considered by Government prior to the completion of the Functional and Efficiency Review.



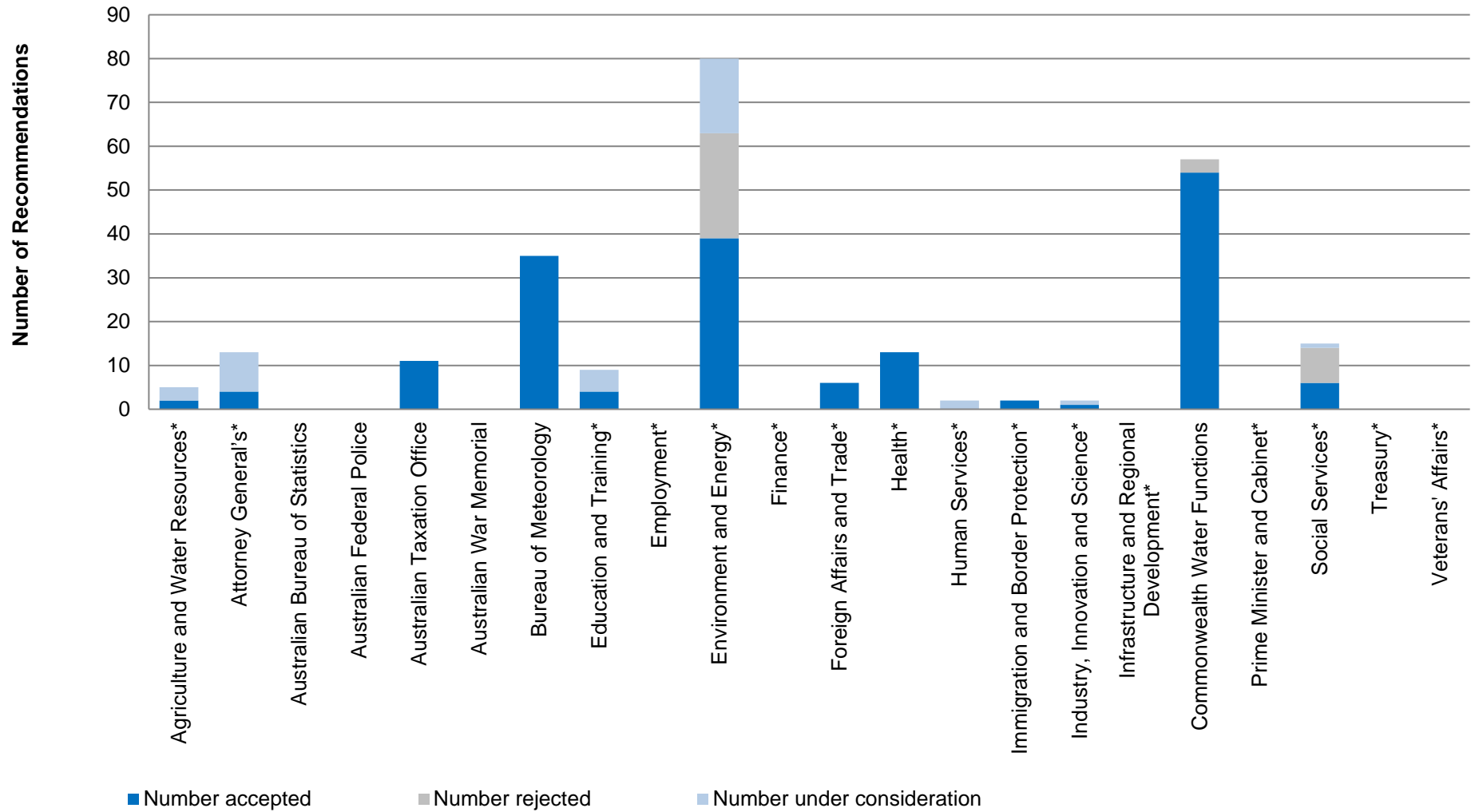
**Figure 3.5: Recommendations presented to responsible Minister**



Note a: Entities marked with an \* are Departments of State.

Source: ANAO analysis.

**Figure 3.6: Recommendations presented to Government by Functional and Efficiency Review**



Note a: Entities marked with an \* are Departments of State.

Note b: This Figure does not reflect situations where Functional and Efficiency Review recommendations were already being considered by Government through processes that were not solely in response to review recommendations and had commenced prior to the completion of the Functional and Efficiency Review.

Source: ANAO analysis.

## Contestability Reviews

3.29 For ten of the 11 Contestability Reviews, the responsible Accountable Authority received a copy of the Contestability Review and/or recommendations (see Appendix 4, Figure A.3, for details by Contestability Review). For most Contestability Reviews, the responsible Accountable Authority did not document a position on whether the recommendation should be accepted or rejected or provide details of implementation arrangements. Where the responsible Accountable Authority did not document a position, the responsible Minister was not advised on the entity's proposed approach to the recommendation or its implementation.

3.30 Entities were able to provide documentation demonstrating that some or all recommendations from four reviews had been accepted, and that no recommendations were rejected by the Accountable Authorities. For the Management of the Commonwealth's Insurable Risk Contestability Review, while a number of recommendations were accepted by the responsible Accountable Authorities, one of the responsible Accountable Authorities did not offer a position on the recommendations but raised concerns—such as the recommendations potentially undermining reforms going through Parliament, and about the robustness and completeness of analysis and findings that were the basis for recommendations. For another five reviews (where no recommendations were accepted) such documentation was not available. For one review (Interface between Government and Business) the responsible Accountable Authority determined that the review recommendations did not require action as they could be addressed as part of the entity's Functional and Efficiency Review.<sup>75</sup> Overall across the 11 reviews, 39 of the 74 recommendations had been accepted by the responsible Accountable Authority, and no recommendations had been accepted with reservation or rejected.

3.31 The responsible Minister was briefed on all or some recommendations from eight of the 11 Contestability Reviews (see Appendix 4, Figure A.4, for details by Contestability Review). For three of these eight reviews, the Minister noted the recommendations. For another three reviews the responsible Minister accepted all of the recommendations of the review. For the Management of the Commonwealth's Insurable Risk and Commonwealth Property Services<sup>76</sup> Contestability Reviews, the responsible Ministers accepted some of the recommendations. The Management of the Commonwealth's Insurable Risk Contestability Review was the only Review where the responsible Minister rejected recommendations. Overall across the reviews, 16 of the 74 recommendations had been accepted by the responsible Minister, two had been accepted with reservation, three had been rejected (all from the Insurable Risk review), four were still under consideration, 35 recommendations were noted and 14 recommendations were not presented to the responsible Minister.

3.32 For three of the 11 Contestability Reviews, the responsible Minister presented a total of 13 review recommendations and proposed implementation arrangements to the Government for

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75 The Department of Industry, Innovation and Science advised the ANAO that the Contestability Review had two recommendations that were accepted by the Accountable Authority through an Executive Board meeting in March 2016. Supporting documentation provided to the ANAO does not demonstrate acceptance of these recommendations.

76 In January 2018, Finance advised the ANAO that the Contestability Reviews of Commonwealth Property Services and the second phase of the Provision of Policy Advice to Government were being finalised with the Minister for Finance.

consideration, and nine recommendations were accepted (see Appendix 4, Figure A.5).<sup>77</sup> In some cases, the responsible Minister recommended modified actions to address these recommendations. For another three reviews, the responsible Ministers presented the outcomes of the review to the Prime Minister and generally indicated an intention to implement all 37 recommendations and finalise these reviews. The Minister for Industry, Innovation and Science presented the recommendations of the Interface between Government and Business Contestability Review to the Prime Minister, indicating an intention to implement these recommendations as part of the National Business Simplification Initiative. For the other four reviews, no recommendations were presented to the Government.

## Have efficiency savings exceeded the cost of undertaking reviews?

Estimated net savings to Budget of more than \$5 billion over the forward estimates exceed the total reported cost (\$18.7 million) of undertaking Functional and Efficiency Reviews and Contestability Reviews—although few entities were able to provide the full cost of the reviews. Savings to Budget were derived exclusively from Functional and Efficiency Reviews, and mainly from reductions in programme outlays (\$5.0 billion) rather than departmental outlays (\$122.3 million). Most reviews have not led to a net saving to Budget, with savings being reported for only eight of 25 participating entities.

### Functional and Efficiency Reviews

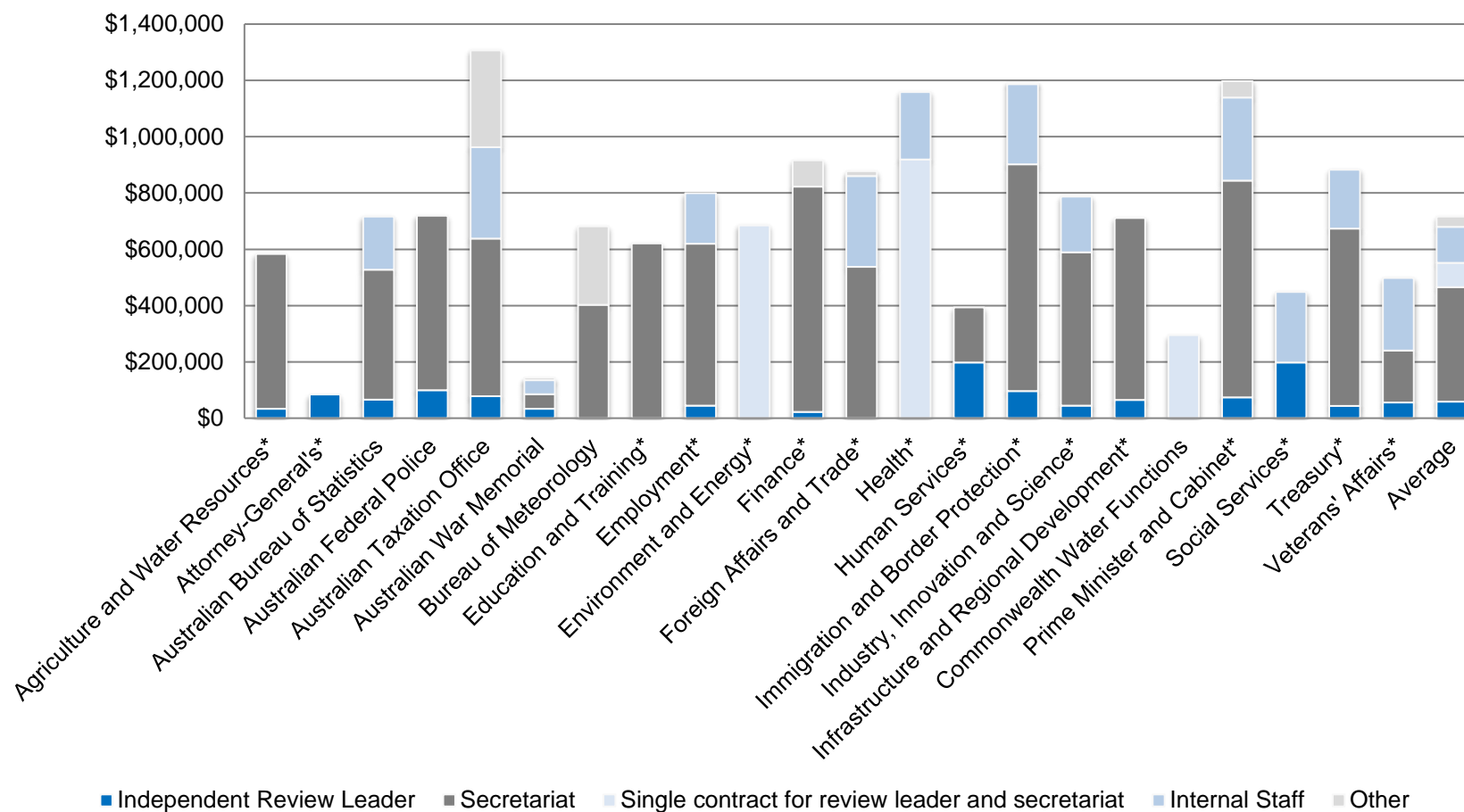
3.33 The terms of reference and the *Contestability Programme Guidelines* required entities to meet the cost of the reviews from within their existing resourcing. Entities were to appoint an independent review leader and provide staffing and financial resourcing as needed. Most entities contracted secretariat support for the review, as well as providing internal staff resources. Entities also incurred travel and other costs associated with the review.

3.34 Entities reported spending in excess of \$16.7 million undertaking the 22 Functional and Efficiency Reviews—an average of \$759 000 per review. Few entities maintained records of the full cost of reviews, with relevant entities being unable to provide an estimate of internal staff resources for 10 reviews. The nature of information provided by entities to confirm costs varied and included AusTender records, contracts, purchase orders, approved invoices and, in a few instances, payment reports against the contract from the entity's financial system. For two reviews (Department of Education and Training and Department of Foreign Affairs and Trade) the independent review leader did not charge for services, and the entity did not establish an agreement with the review leader. For three reviews (Department of the Environment and Energy, Department of Health, and Commonwealth Water Functions) a single contract was let for the review leader and secretariat with Ernst & Young. Figure 3.7 provides an overview of the costs reported by entity and type for the Functional and Efficiency Reviews (Figure 3.8 provides this information for Contestability Reviews, and further details of review costs are outlined in Appendix 5).

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<sup>77</sup> Generally the submissions included the full report or executive summary from the review report. For the Management of the Commonwealth's Insurable Risk Contestability Review only the recommendations relating to the Department of Employment and Comcare were presented for consideration.

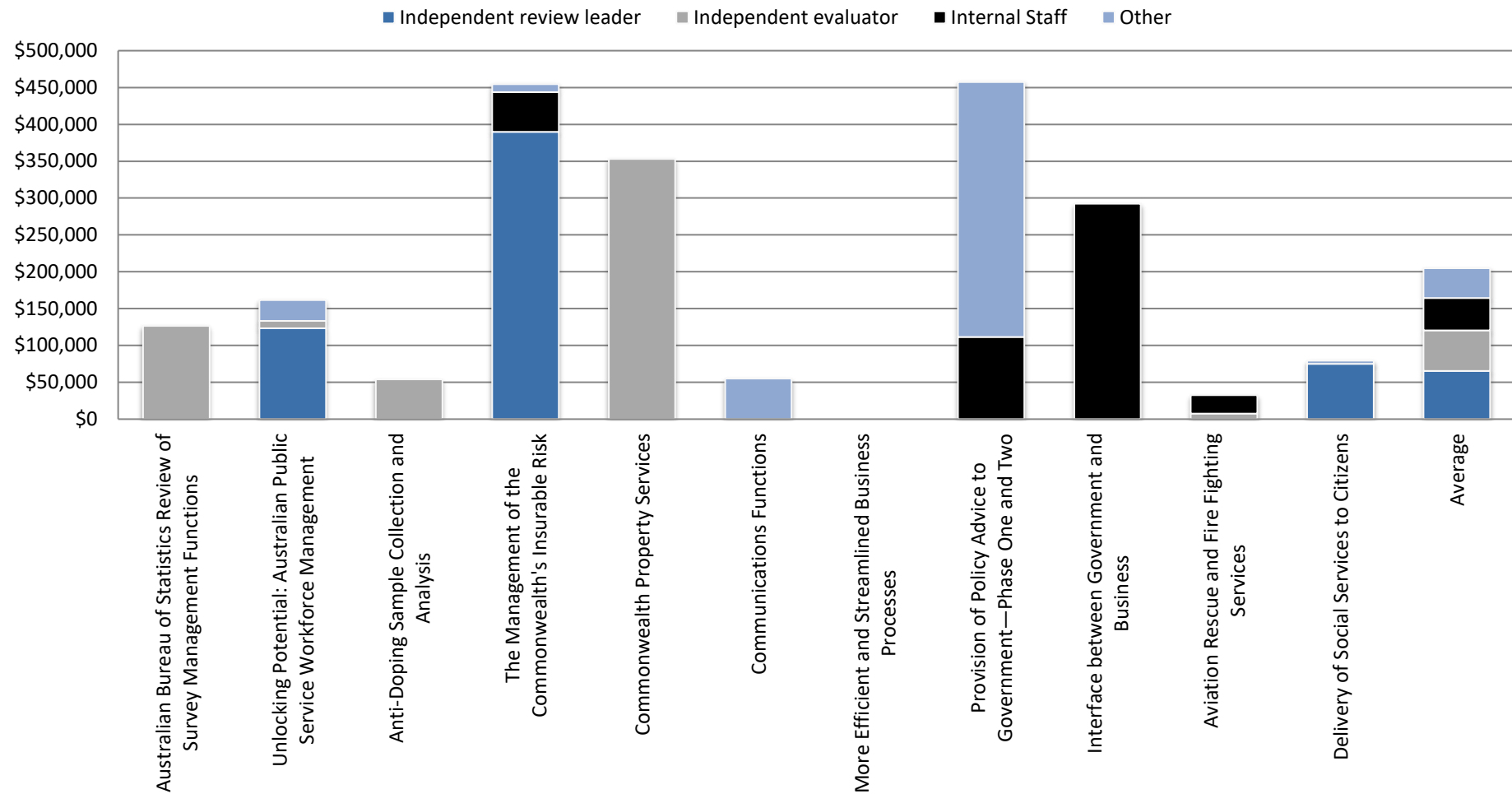
**Figure 3.7: Functional and Efficiency Reviews; costs by type**



Note a: Entities marked with an \* are Departments of State.

Source: ANAO analysis of entity documentation.

**Figure 3.8: Contestability Reviews; costs by type**



Note a: Finance did not engage an independent review leader for the second phase of the Provision of Policy Advice to Government Contestability Review, rather Finance engaged independent external expertise which is shown in this Figure as other costs.

Source: ANAO analysis of entity documentation.

3.35 Appendix 6 shows the total value and number of independent review leader and secretariat contracts by provider. Eighteen individuals were engaged as independent review leaders across the 22 Functional and Efficiency Reviews. Mr David Tune undertook four reviews as the review leader and the Hon. Warwick Smith AM LLB undertook two reviews as the review leader. Two reviews did not contract for secretariat services (the Attorney-General's Department and Department of Social Services), instead relying on internal staff resources to support the reviews. For the remaining 20 reviews, seven providers were engaged to provide secretariat services. Nours Group and Ernst & Young provided secretariat services for seven and six reviews, respectively, both with a total reported value of approximately \$3.9 million.

### Contestability Reviews

3.36 Consistent with Functional and Efficiency Reviews, entities were to meet the cost of Contestability Reviews from internal resources. Finance assisted with the cost of a number of Contestability Reviews. Entities reported spending in excess of \$2 million on Contestability Reviews. Few entities provided internal staff costs, and no costs were reported for undertaking the review of More Efficient and Streamlined Business Processes. Figure 3.8 provides an overview of the costs reported by entity and type for the Contestability Reviews.

3.37 Some entities asked that, in conducting the Programme, greater consideration of the likely costs and savings from a review be considered prior to commissioning reviews. For example, in relation to the Anti-Doping Sample Collection and Anti-Doping Sample Analysis Contestability Review the Minister noted in correspondence to the Prime Minister that:

there is likely to be a critical point where the potential gains to the Budget position are outweighed by the expenses involved in the conduct of such reviews, particularly for small agencies with limited budgets.

I would highlight that I welcome this process to ensure we are using tax payer funds as efficiently and effectively as possible, however I note that the 2014/15 [Australian Sports Anti-Doping Authority] ASADA testing budget was \$2.4m for 5,000 tests and therefore potential savings are limited.

### Total net savings—reported programme outcomes

3.38 The outcomes of Functional and Efficiency Reviews have been reported in successive Budgets. Table 3.1 provides an overview of the savings attributed to the Programme. Two per cent (\$122.3 million) of the total reported net savings of some \$5.2 billion over the period 2013–14 to 2020–21 relates to departmental expenditure, the remaining 98 per cent relates to ceasing or changes to programmes. Finance has also identified other savings of more than \$1.7 billion for portfolio entities that relate to or overlap with the Functional and Efficiency Reviews but cannot be solely attributed to the Efficiency through Contestability Programme (see Table 3.2). Overall, the savings from Functional and Efficiency Reviews have far exceeded the cost of undertaking the reviews. However, only eight entities have reported net savings to budget from Functional and Efficiency Reviews. No savings to Budget have been made through Contestability Reviews.<sup>78</sup>

78 Budget Paper No.2 of 2016–17 includes a \$3 million investment in 2015–16, and does not disclose the savings over the forward estimates, resulting from Finance's coordinated procurement for property services, which results from the implementation of a recommendation from the Commonwealth Property Services Contestability Review. On 15 September 2017, the Minister for Finance announced savings in excess of \$100 million in property-related expenditure over the four years of the property service provider contracts.

**Table 3.1: Total estimated savings, by Budget, over the forward estimates arising from Functional and Efficiency Reviews**

Department/Agency	Budget Paper No.4, 2015–16, \$million over the forward estimates	Budget Paper No.4, 2016–17, \$million over the forward estimates	Finance calculations for 2017–18, \$million over the forward estimates (2013–14 to 2020–21) <sup>a</sup>	Total Departmental Savings <sup>b</sup> \$million
Social Services*		\$2295.5	\$3212.3 <sup>c</sup>	-53.5 <sup>d</sup>
Education and Training*	\$131.0 <sup>e</sup>	\$131.2	\$221.1	\$7.6
Foreign Affairs and Trade*		\$99.0	\$157.8 <sup>f</sup>	\$50.5
Health*	\$96.0 <sup>g</sup>	\$95.9	\$1533.8 <sup>h</sup>	\$96
Australian Taxation Office		\$21.8 <sup>i</sup>	\$29.3	\$21.7
Agriculture and Water Resources*		\$9.2 <sup>j</sup>	\$9.2	-
<b>Total savings reported</b>	<b>\$227.0</b>	<b>\$2652.6</b>	<b>\$5163.5</b>	<b>\$122.3</b>

Note a: These amounts reflect Finance's projections of savings, which sometimes exceed the period of the measure.

Note b: Amounts recorded as total departmental savings reflect savings reported as part of measures in Budget 2015–16, Mid-year Economic and Fiscal Outlook 2015–16 and Budget 2016–17.

Note c: The net savings to the Department of Social Services are to be achieved through strengthening integrity of the welfare payments, abolishing the energy supplement and ceasing the Single Income Family Supplement, as well as efficiencies achieved from the introduction of a new document management system.

Note d: The net investment in the Department of Social Services departmental expenditure relate to strengthening integrity of the welfare payments, abolishing the energy supplement and ceasing the Single Income Family Supplement. Department savings were returned to the Budget as a result of efficiencies achieved from the introduction of a new document management system. In April 2018 Finance advised that the ANAO some elements of strengthening the integrity of welfare payments was reversed in the Mid-year Economic and Fiscal Outlook 2017–18.

Note e: The savings to the Department of Education and Training are to be achieved through ceasing and redesigning programmes that were not consistent with the Government's core priorities and national strategic policy settings for education; \$7.6 million of these savings are in the operations of the department.

Note f: The savings to the Department of Foreign Affairs and Trade include portfolio efficiencies in corporate activities and an increase in notarial fees.

Note g: The savings to the Department of Health were to be achieved through efficiencies in contracting, corporate, staff and property management activities.

Note h: Following the transfer of Aged Care responsibilities from Department of Social Services to the Department of Health, additional savings to the Health portfolio were to be achieved through revision of aged care provider funding, streamlined health and aged care workforce program funding, and improved compliance with aged care provider funding.

Note i: Net savings to the Australian Taxation Office were to be achieved through expanding external compliance assurance processes, and streamlining and reducing external scrutiny arrangements.

Note j: Net savings to the Department of Agriculture and Water Resources were to be achieved through efficiencies in managing farm risk.

Note k: Entities marked with an \* are Departments of State.

Source: Preface and Preliminaries to Budget Paper No.4 of successive Budgets and Department of Finance documentation.



**Table 3.2: Total estimated savings, by Budget, over the forward estimates that relate to but are not solely attributable to Functional and Efficiency Reviews**

Department/Agency	Budget process and year	Published Measures \$million	Total departmental savings \$million
Department of Health: Aged Care Provider Funding Instrument	Budget 2016–17	\$1200.0	-
Department of Foreign Affairs and Trade: Increased passport fees	Budget 2016–17	\$172.9	-
Department of Environment and Energy: Green Army efficiencies	Budget 2015–16	\$73.2	-
Department of Employment: – Fair Entitlements Guarantee – recovery program – continuation and expansion – Job Commitment Bonus cessation	Budget 2014–15 Budget 2016–17	\$87.7 \$242.1	-
Department of Prime Minister and Cabinet: Modernisation Fund Transformation and Innovation Stream Redevelopment of IT Systems	Budget 2017–18	-\$9.5	-
Department of Industry, Innovation and Science: Maintaining Australia’s Optical Astronomy Capability	Budget 2017–18	-\$26.1	-
Australian War Memorial: – organisational restructure and ICT – Develop the business case for extra exhibition spaces	Budget 2017–18 Budget 2017–18 MYEFO <sup>a</sup> 2017–18	-\$6.7 -\$5.0 - \$ 11.4	-
Department of Finance: Creation of Independent Parliamentary Expenses Authority	Budget 2017–18	-\$ 13.2	-\$13.2
<b>Total savings reported</b>		<b>\$1704.0</b>	<b>-\$13.2</b>

Note a: Mid-Year Economic and Fiscal Outlook (MYEFO).

Source: Budget Papers and Department of Finance documentation.

3.39 Many recommendations focused on efficiency savings and reviews estimated potential savings to be achieved. However, internal efficiency savings and the resultant reallocation of entity funding for other purposes have not been monitored or demonstrated.

## Implementation costs

3.40 Three entities provided ANAO with information regarding implementation costs associated with review recommendations:

- the Department of Health engaged Third Horizon to assist with implementation of Functional and Efficiency Review recommendations for a total cost of \$1 014 913. The Department of Health also received a \$10 million investment to implement two recommendations through the Budget process to build strengthened policy and data analytics capability<sup>79</sup>; and
- Comcare and the Department of Employment reported a total cost of \$11 627 751 for contracts and internal staff costs associated with implementation and investigation of recommendations from the Management of the Commonwealth's Insurable Risk Contestability Review.

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79 The review recommended that an investment of \$18 million (20 full time equivalent staff) be made in the department's analytical capability. The department only sought \$10 million, with the remainder of the funding being found by redirecting current resources and was to be integrated with the implementation of efficiencies identified in the review.

## 4. Implementation of review recommendations

### Areas examined

The ANAO examined whether selected entities have implemented agreed initiatives as planned, and have monitored and reported on achieving planned financial and non-financial efficiency gains.

### Conclusion

Virtually all projected Budget savings from the Programme are from the four reviews whose implementation of recommendations was examined in detail in this audit. There has been divergence between entities in implementing recommendations against plans. Monitoring has focused on implementation progress with little evaluation of whether savings from implementing recommendations are based on efficiency improvements rather than reductions in services or other outputs. Entity reporting to Finance has been mainly through the Budget process that focuses on net changes to appropriations.

### Areas for improvement

When planning for the implementation of recommendations (where relevant) responsibilities, milestones, performance measures and baselines should be established (see paragraphs 4.4 and 4.15). In monitoring the implementation of recommendations, service levels and/or efficiency, trends in performance measures against the baseline should be monitored and reported to demonstrate whether implementation objectives have been achieved. Similarly, following the implementation of recommendations, an evaluation of outcomes should be made to determine the success of the actions taken, and whether further or different actions are required.

### Selected reviews and accepted recommendations

4.1 The ANAO selected four reviews to determine whether agreed recommendations had been implemented and that implemented arrangements had achieved the planned financial and non-financial efficiency gains. For these four reviews, Table 4.1 outlines the entities responsible for implementing accepted recommendations and details of those recommendations. The Department of Health (Health) and the Department of Foreign Affairs and Trade (DFAT) had more than 60 recommendations to implement, whereas the Department of Social Services (DSS) and entities involved in the Management of the Commonwealth's Insurable Risk (Insurable Risk) Contestability Review—mainly the Department of Employment (Employment)<sup>80</sup>, Comcare and the Department of Finance (Finance)—had 12 or less recommendations to implement.

4.2 For some recommendations, departmental appropriations were reduced on the expectation that efficiencies would be achieved. Health had a set of recommendations that led to a \$106 million reduction in departmental appropriations, whereby the department was given flexibility to achieve the level of savings required. DFAT also had a set of recommendations to reform its corporate functions (human resource management, finance and security), to improve efficiency and lead to a reduction in departmental appropriations of \$43.8 million over five years to 2019–20.

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80 Due to the Administrative Arrangements Order amendments introduced on 20 December 2017, the Department of Employment became the Department of Jobs and Small Business.

**Table 4.1: Reviews examined and recommendations accepted**

Review name	Entities responsible for implementing accepted recommendations	Number of recommendations accepted
Contestability Review Management of the Commonwealth's Insurable Risk (Insurable Risk)	Comcare Department of Employment Department of Veterans' Affairs	6 <sup>a</sup>
Functional and Efficiency Review Department of Health	Health	69
Functional and Efficiency Review of the Australian Government Department of Social Services	Department of Social Services	12
Functional and Efficiency Review Department of Foreign Affairs and Trade and Portfolio Agencies	Department of Foreign Affairs and Trade AusTrade Australian Centre for International Agricultural Research Export Finance and Insurance Company Tourism Australia	67

Note a: Of the six Insurable Risk recommendations that were accepted, four affect the operations of the Department of Veterans' Affairs (DVA), and two affect the operations of Comcare. The Department of Employment was working with Comcare at the time of the audit to implement Comcare's two recommendations. DVA worked with Comcare to implement one of DVA's recommendations.

Source: ANAO analysis of documentation provided by entities.

## Did entities develop implementation plans for agreed recommendations?

For the four reviews examined in detail, Employment, Comcare, Health and DSS developed implementation plans for all or most of their accepted recommendations, while DFAT developed implementation plans for only ten per cent of its accepted recommendations. Where implementation plans were developed, they regularly included implementation milestones and lines of accountability. Eight plans (five per cent) established performance measures, and only one plan established benchmarks for performance measures.

4.3 The *Contestability Programme Guidelines* state that the responsible Secretary (or Accountable Authority) is to implement recommendations from Contestability Reviews and Functional and Efficiency Reviews, as well as advise the Minister on planned implementation arrangements. The Guidelines state that a key part of successful implementation of contestable arrangements is consistent management, which includes considering any necessary transition arrangements and timeframes required to implement recommendations.<sup>81</sup> In the Framework and Guidelines, such arrangements include establishing: a detailed implementation plan; staffing and

81 The Contestability Guidelines required reviews to consider transition paths for recommendations. See Finance, *Contestability Programme Guidelines*, 2015, p. 29 and 31, for Contestability Reviews and Functional and Efficiency Reviews respectively.

capability requirements; governance structures; performance measurement and management requirements; and a timeframe for reviewing arrangements after implementation.

4.4 Table 4.2 outlines the extent and nature of implementation planning undertaken by entities for accepted recommendations. Employment, Comcare, Health and DSS generally developed plans for the implementation of accepted recommendations. DFAT developed an implementation plan for five of its accepted recommendations. Where implementation plans were developed, they regularly included implementation milestones and lines of accountability. For only eight of the 155 recommendations examined (five per cent), plans included performance measures, and one plan established benchmarks for performance measures.

**Table 4.2: Characteristics of plans to implement accepted recommendations**

Implementation plan contents / Number of recommendations:	Insurable risk	Health	DSS	DFAT
Accepted	6	69	12	67
With an implementation plan	2	67	8	7
Where an implementation plan was not required	1	0	1	13
Where plan establishes implementation milestones	2	67	8	7
Where plan establishes performance measures, such as of efficiency and effectiveness	2	0	6	0
Where plan establishes a baseline or benchmark for performance measures	0	0	1	0
Where plan establishes lines of accountability and reporting	2	67	8	7

Source: ANAO analysis of documentation provided by entities.

4.5 Implementation planning undertaken by Employment and Comcare addressed all accepted recommendations from the Insurable Risk Contestability Review and included milestones, performance measures and lines of accountability. While a benchmark was not included in planning documentation, performance measures included in the plans were based on measures already in use by Comcare. As a result, Employment and Comcare had information available to establish a baseline that would enable comparisons of performance before and after the implementation of recommendations.

4.6 In May 2015, at the conclusion of the Health Functional and Efficiency Review, most of the accepted recommendations were integrated into the Health Capability Program Action Plan, which had been developed to respond to the review. This was a high-level plan that consisted of 56 work packages in the five key areas that were identified by the Capability Review—leadership and culture, strategic capability, governance and delivery, risk management and stakeholder engagement. Functional and Efficiency Review recommendations were integrated as part of the original work packages of the Health Capability Program. A business lead and governance committee was identified for each action in the plan, and some actions had due dates. No performance measures for the planned implementation of review recommendations were included but each governance

committee<sup>82</sup> produced regular performance reports that included implementation timeframes for each work package and status of implementation.

4.7 DFAT did not develop implementation plans, apart from seven recommendations. The department provided strategic, operational and administrative documents that focused on high-level arrangements such as strategies, policy and procedures, but did not clearly set out the steps to be taken to address each recommendation. An implementation tracking document (developed in 2017) outlined whether a recommendation had been accepted and responsibilities for all recommendations. The document also established milestones for 25 recommendations. Ten recommendations were to maintain or continue existing arrangements rather than to change operations—which would not require an implementation plan (as indicated in Table 4.2). Other recommendations which did not require an implementation plan included two recommendations to increase fees and a recommendation that involved an exchange of letters between DFAT and Finance to close the Expositions Account.<sup>83</sup> For a further 16 recommendations DFAT considered implementation plans were developed—DFAT provided a range of documentation including circulars, review reports and existing procedures and guidelines to implement the recommendation in the absence of an implementation plan. This included a recommendation to increase representation internationally by opening new overseas posts with an investment of more than \$67 million. DFAT provided the ANAO with New Post Projects procedures and guidelines<sup>84</sup> that included documentation to be completed to support the establishment of new posts, including reporting and governance arrangements involving the Post Opening Steering Committee, the Post Opening Committee, and the Post Management Issues Section—completed documentation for each new post was not provided.

4.8 DSS also prepared a tracking document and contact list for review recommendations in 2017, and it too included details of milestones and lines of accountability. Implementation plans were provided to the ANAO for eight of DSS' 12 accepted recommendations.<sup>85</sup> Plans for seven of these recommendations used different templates that included milestones, performance measures and lines of accountability.<sup>86</sup> In some cases, planning documentation was being developed at the

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82 The Health Capability Program was overseen by a series of senior governance committees, including the Executive Committee.

83 DFAT advised a further 11 recommendations did not require an implementation plan as they involved internal staffing decisions, sharing a strategy with stakeholders, finalising contracting arrangements, and investigating shared and common services arrangements.

84 DFAT's guidelines state that 'a systematic and coordinated project management approach will mitigate risks and present the department with efficiencies and benefits in planning for and establishing new posts'.

85 The plans comprised: a draft plan for closing the Energy Supplement to new entrants (of the Family Tax Benefit and Commonwealth Seniors Health Card) from 20 March 2017; closing the Single Income Family Payment to new entrants from 1 July 2017; reviewing eligibility for Carer Payment and the methodology for assessment; increasing competition and innovation in supply of disability employment providers; adopting an individualised funding model for disability employment services; developing and resourcing an enterprise compliance framework; progressing grants administration services for other Commonwealth departments; and implementing the records management system.

86 A meeting briefing paper included milestones and responsibilities for the recommendation to develop and resource an enterprise compliance framework.

time of the audit.<sup>87</sup> For the Energy Supplement and Single Income Family Payment, DSS conducted planning with the Department of Human Services to introduce the changes, while management information required for these payments remained unchanged. While a benchmark was not included in planning documentation for these two payments, the plans outlined the timing and frequency of management information reports that would be required prior to implementation, to establish a baseline to track and quantify the number of payments (by value and customer numbers). Supporting documentation to the implementation plan for progressing grants administration services included a benefits realisation strategy, a benefits management plan and a benefits management profile. The benefits management profile included 13 measures of efficiency and effectiveness.<sup>88</sup> For each measure the profile was designed to outline the owner, frequency, formula, input and input source, baseline and baseline date, the benefit realisation target and the intended benefit. A baseline, baseline date and benefit realisation target had been specified for four of the 13 measures.

4.9 Another seven entities that had completed Functional and Efficiency Reviews provided the ANAO with implementation planning documentation for accepted review recommendations. These entities included the Attorney-General's Department, the Department of Environment and Energy, and the Department of Infrastructure.<sup>89</sup> These plans were developed using a standard template that included details such as the recommendation number, the responsible business unit and officer, project description and scope, key deliverables and milestones, key implementation risks, project budget and anticipated savings. Other entities, including the Department of Human Services, advised their Minister of responsible officers, milestones and high-level strategies to progress a recommendation when providing the department's response to the review recommendations. Similarly, when reporting on the implementation of review recommendations to:

- its executive committee, the Department of Agriculture and Water Resource's report included details of responsible areas, status and due dates; and
- the Secretary, the Department of the Prime Minister and Cabinet's report included the timeframe for taking forward the recommendation and the estimated indicative financial impact.

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87 For example, in February 2016 DSS entered into a collaborative agreement with the Department of Human Services to explore opportunities for the Department of Human Services to provide core transactional corporate services through the Shared and Common Services Program. To support this process, a Shared Services Planning Project Steering Committee was established. One of the deliverables of the Committee was to endorse the final project report including an overarching project plan and a benefits plan.

88 Efficiency measures included: percentage reduction in costs reflected in Hub Rate Card; percentage reduction of rework in progressing grants; and higher proportion of overall processing tasks performed with govGPS. Effectiveness measures included: percentage compliance with data quality targets defined in the Data Quality Framework; percentage increase in the proportion of grant program data using standard information language; and increased proportion of grant programs for which standard and ad hoc reports are available through the cross-agency data analytics capability.

89 The Australian Taxation Office also completed a number of templates that included details of the recommendations, timeframe, responsible officers and required budget.

## Have entities implemented recommendations in accordance with plans?

While all entities have implemented or commenced implementing between 65 and 90 per cent of accepted recommendations from the four reviews, Employment, Comcare and Health demonstrated that implementation was in accordance with plans. DSS provided plans for implementing eight of its 12 accepted recommendations, and demonstrated that it had implemented six recommendations and was implementing another six recommendations. Health had a number of accepted recommendations where implementation had not commenced or would not be progressed (35 per cent), and DFAT had not established completion dates for a number of recommendations where implementation had commenced.

4.10 Review recommendations sought changes that would achieve benefits through making savings, improving efficiency and performance, or making functions more competitive and contestable. To achieve intended benefits, entities should have implemented recommendations in accordance with implementation plans, or explained the rationale for any changes.

4.11 Table 4.3 provides an overview of the extent to which accepted recommendations have been implemented, and whether implementation is in accordance with implementation plans.

**Table 4.3: Implementation of accepted recommendations**

Status of implementation / Number of recommendations:	Insurable risk	Health	DSS	DFAT
Accepted	6	69	12	67
Implemented	3	39	6	33
Being implemented	3	6	6	27
Implementation not commenced	0	7	0	0
Not to be implemented/progressed	0	17	0	7
Implemented in accordance with implementation plan	2	45	7	4

Source: ANAO analysis of documentation provided by entities.

4.12 All entities have implemented or commenced implementation of a majority of accepted recommendations. Employment, Comcare, DSS and DFAT have implemented or commenced implementation of 90 per cent or more of accepted recommendations. Health has implemented 57 per cent of accepted recommendations, and commenced implementing a further nine per cent of accepted recommendations.

4.13 Employment, Comcare and Health demonstrated that all recommendations were being implemented in accordance with implementation plans. Health managed implementation as part of the wider Health Capability Programme (which consolidated recommendations from multiple reviews), with regular progress reporting and monitoring by the relevant senior governance committees. However, the final outcomes of the initiative were not monitored by these



committees, including in relation to the implementation of particular recommendations of the Functional and Efficiency Review.<sup>90</sup>

4.14 DFAT provided documentation to demonstrate that five individual recommendations have been implemented although monitoring documentation records the status of 33 of 67 recommendations (49 per cent) as completed. Monitoring documentation also indicates that DFAT was still considering whether to implement six accepted recommendations<sup>91</sup>, although the responsible Minister had not been advised of the decision. Health did not progress all accepted recommendations.

4.15 In relation to a recommendation for co-location within DFAT, portfolio entities were advised to consult DFAT as leases expire. To progress this recommendation, the department developed the *Proposed approaches for State and Territory Co-location*. The document records the state office lease schedules and possible options for co-location on finalisation of a lease agreement, but does not propose decisions on co-location, or plans for co-location. DFAT has one state office lease that does not expire until 2024, and Austrade has a state office lease that will not expire until 2021. Generally state office leases (for DFAT and Austrade) did not expire in the same year and sometimes there were nine years between lease expiry for the two entities. Establishing an implementation plan with milestones including the implementation date would provide more meaningful information to manage and monitor the implementation of the recommendation.

4.16 Many recommendations have long term implementation timeframes, for example:

- DSS has a recommendation to move transactional corporate services to DHS that would not be implemented until 2020–21; and
- DFAT has many recommendations that were ‘ongoing’ but did not have a specified implementation date such as: centralising the learning and development function; adopting a flexible operating model for new posts that provides for use of lower classification communications systems and reduced ICT-related security requirements; and considering state office co-location of portfolio entities where feasible.

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90 The Health Capability Program was closed in October 2016 following the completion of an independent assessment report (a Health Check that focussed on organisational capability and achievements since Health completed its Capability Review in 2014) combined with a high-level stocktake on the status of work packages. At this time, it was agreed by the Executive Committee that 20 work packages would formally close, nine work packages would continue (including the Evaluation Centre of Excellence, Leveraging Capability of Portfolio Agencies and Strategic Policy Environment which can be linked to Functional and Efficiency Review recommendations), and 15 work packages would transition to business as usual operations.

91 DFAT indicated that reasons for not progressing recommendations included: overlapping government or entity reviews impacting the purpose of the recommendation; further assessment of legislative or regulatory arrangements; and review of implementation costs and/or savings.

## Do entities monitor and report on efficiency and performance improvements?

Entities monitored and reported on the implementation of recommendations from the four reviews, but focused on milestones and deliverables and rarely on achieving outcomes. Only Comcare and Employment established and reported on measures of efficiency or effectiveness. Health regularly monitored and reported to senior governance committees on the implementation of recommendations from its Functional and Efficiency Review. DSS undertook some reporting on the implementation of individual recommendations to governance committees. DFAT undertook ad hoc monitoring and reporting arrangements to report on the progress of implementation. For some recommendations, departmental appropriations were reduced on the premise that operating efficiencies would be achieved. In the absence of a baseline, performance measures and trend analysis for efficiency, service level and quality it is difficult for entities to demonstrate that these initiatives have led to efficiencies and performance improvements.

4.17 Regularly monitoring and reporting on performance and efficiency improvements assists the responsible entity to ensure that implementation is on track and achieving the intended outcomes. Where intended outcomes are not being achieved, the entity has the opportunity to adjust its approach to better support intended outcomes or to reconsider intended benefits.

4.18 Table 4.4 provides an overview of the extent to which accepted recommendations have been monitored and reported on, and whether there have been improvements or efficiencies gained from implementing the recommendation. All entities, to some extent, monitored and reported on the implementation of recommendations: Employment, Comcare and Health had a structured approach to monitoring and reporting; DSS and DFAT both developed an implementation tracking document for their Functional and Efficiency Review recommendations in 2017. DSS also provided evidence of implementation of some individual recommendations through relevant pre-existing governance committees and has reported on the efficiency and effectiveness of implementing one recommendation. DSS' implementation plans also included monitoring and reporting expectations, and in two instances they were in place.

**Table 4.4: Measuring and reporting improvements in efficiency and effectiveness**

Number of recommendations	Insurable risk	Health	DSS	DFAT
Implemented or being implemented	6	45	12	67
Monitored and reported	2	45	8	67
Effectiveness (including service improvements) were measured and reported	2	0	1	0
Efficiencies were measured and reported	2	0	1	1

Source: ANAO analysis of documentation provided by entities.

4.19 Comcare's Outsourcing Pilot Plan included performance measures and noted that pilot providers would be required to record timeframes and outcomes on all aspects of claims management to benchmark against Comcare and other private providers. Pilot providers were also required to record costs incurred in providing these services and details of any requests for review

or disputes raised by injured workers. Table 4.5 provides details of Comcare performance measures relevant to the outsourcing pilot. These performance measures cover aspects of effectiveness (such as return to work duration and accuracy of claims) and efficiency (such as claim closure rate and premium rate), as well as deliverables such as timeliness.

**Table 4.5: Comcare’s performance measures for the outsourcing pilot**

Performance measure
Central Claims Estimates (as determined by the scheme actuary)
Timeliness of acceptance / denial of liability
Timeliness of treatment services
Evidence based treatment
Return to work durations
Complaints
Disputation rate
Claim closure rate
Premium rate

Source: Comcare, *Outsourcing Pilot Plan*, September 2015.

4.20 Health and DFAT did not have processes in place to measure, monitor and report efficiency and performance improvements arising from the recommendations.<sup>92</sup> Health’s performance reporting focussed on timeliness and completion of work packages, rather than whether the intended outcomes were achieved. Work packages were considered closed when the action had been completed, not when the desired outcomes were realised. In a September 2017 report to its Executive Committee, DFAT reported on savings, investments, costs and revenues derived from implementing Functional and Efficiency Review recommendations.

4.21 Except for the Insurable Risk review, the absence of a baseline, performance measures and trend analysis made it difficult for entities to monitor whether implemented recommendations led to efficiencies and performance improvements (such as higher service levels and quality).

92 Some recommendations were transactional in nature, such as to cease administrative activities, and it may not be worthwhile for the departments to monitor the subsequent impacts on efficiency and effectiveness of implementing those recommendations. Table 4.4 is simply reporting that the two departments did not monitor the efficiency or effectiveness of implementing any of the recommendations of the Functional and Efficiency Reviews that were implemented or being implemented.

## Are arrangements in place to evaluate and report on the outcomes of entity level savings and improvements?

Reductions over the forward estimates to the Budget arising from the Functional and Efficiency Reviews of Health, DSS and DFAT totalled \$4.9 billion, which represented 95 per cent of total net savings for the Programme reported by Finance. Of the four reviews examined, only Employment has evaluated and reported the outcomes of the implementation of recommendations—from the Insurable Risk Contestability Review, although any savings arising from this review have not been returned to the Budget. DSS has evaluated the implementation of one recommendation but could not demonstrate that all planned savings and efficiencies were achieved. The responsible Ministers for Health, Social Services and Foreign Affairs and Trade were involved in proposing savings through submissions to Government and the Budget process for individual or groups of recommendations arising from these reviews. Beyond these pre-established arrangements, processes were largely not in place to evaluate and report to these Ministers on the outcome of the implementation of recommendations.

4.22 The *Contestability Programme Guidelines* state that the responsible Minister is to advise Government on the implementation of contestable arrangements. The responsible Secretary must support their Minister by advising on the implementation of recommendations including evaluating the outcomes and whether intended benefits were achieved. Table 4.6 provides an overview of the extent to which the implementation of accepted recommendations has been evaluated, savings have been achieved, and outcomes have been reported to the Minister.

**Table 4.6: Evaluating the implementation of recommendations**

Number of recommendations:	Insurable risk	Health	DSS	DFAT
Accepted	6	69	12	67
Implemented or being implemented	6	45	12	67
Evaluated for the achievement of outcomes, such as performance improvements or efficiencies.	2	0	1	0
Evaluation determined that the intended outcome was achieved	2	0	0	1
Resulting in savings	2	11	3	3
Value of savings achieved	More than \$33 million	\$1534 million	\$3212 million	\$158 million
Savings were linked to improved performance or efficiencies	2	0	0	0
Reporting to the Minister on achievement of outcome/s occurred	2	0	0	0

Source: ANAO analysis of documentation provided by entities.

4.23 Decisions to reduce departmental appropriations or make changes to programmes (such as closing payments to new entrants) are made by the Government following proposals from relevant Ministers. For the three Functional and Efficiency Reviews examined, the responsible Ministers for

Health, Social Services and Foreign Affairs and Trade were involved in proposed measures that resulted in net savings of \$4.9 billion over the forward estimates. This represents 95 per cent of total net savings that Finance reported for the Programme in the 2017–18 Budget. Estimated savings arising from the Insurable Risk Contestability Review have not been returned to Budget.

4.24 As indicated in Table 4.6, the focus of entity reporting has largely been to Finance about savings achieved through the Budget process. At the entity-level, there has been little focus on reporting outcomes beyond savings, including identifying the nature and extent of improvements in performance and efficiency. There was little recognition that savings do not equate to improved efficiency, and that there may be consequential impacts of the savings on service levels or the achievement of other affected outputs and outcomes.

4.25 As discussed in Chapter 2, Finance is undertaking a stocktake of the implementation status of all recommendations arising from the reviews undertaken through the Contestability Program to inform the Minister for Finance about the outcomes of the Contestability Programme. Further, the Outcomes Report will be provided to responsible Secretaries and Accountable Authorities as part of the finalisation of the Contestability Programme.

### **Evaluation of outcomes from the particular reviews**

4.26 Evaluation of outcomes has only been undertaken for recommendations implemented by Comcare for the Insurable Risk Contestability Review. Only Employment has reported the results of an evaluation to a Minister—the Minister for Employment in September 2017.

4.27 Health did not plan to evaluate the implementation outcomes, and did not put arrangements in place to evaluate and report on outcomes other than savings. Health organised an independent assessment report (Health check) that analysed the effectiveness of the Health Capability Program at improving organisational capability.<sup>93</sup> Following the Health Check, the initial Health Capability Program was closed once the majority of identified work packages had been completed, with no evaluation of their effectiveness. Open work packages have been transitioned into a second wave of the Program, including one work package linked to the Functional and Efficiency Review.

4.28 In February and April 2017, DSS completed a preliminary benefits realisation assessment and a project closure report for the implementation of its records management system that was reported to the Infrastructure, Communication and Technology Committee. A number of benefits were identified when the project was initiated in 2014, including costs, savings and productivity gains from reduction in staff time spent on managing records of one hour per person per week (with estimated savings in excess of \$3 million per annum). In 2016, DSS undertook a survey to baseline staff productivity and in the 2016–17 Mid-Year Economic and Fiscal Outlook introduced a Budget measure to return \$7.8 million over four years from 2015–16 for efficiencies gained through the

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93 The Health Check involved rapid reviews undertaken by Australian Public Service entities to examine the extent to which entities had improved organisational capability since the original capability review. While the Health Check acknowledged the Functional and Efficiency Review had been undertaken since the completion of the Capability Review it was not a focus of the Health Check. Further, the Health Check acknowledged further steps needed to be taken including to ‘Develop “success” metrics that drive a greater focus on outcomes (including progress milestones), evaluate delivery of outcomes and realise benefits from work to date’.

records management project. In April 2017, the benefits realisation report noted savings in planned areas such as licence costs (with a total value of \$684 450). The project closure report noted the financial management of the project had been difficult, with a range of additional costs not included in the original budget, an extended timeframe, and that the ongoing cost of the project was not transparent as it had been rolled into business as usual (implementation costs prior to rolling over to business as usual were \$7.6 million). Productivity gains were to provide \$3 million in savings per annum, but there was no evidence that these have been achieved.<sup>94</sup> DSS advised that an evaluation is underway for one recommendation, it plans to evaluate another seven recommendations as implementation progresses, and it will not evaluate three recommendations as they do not warrant evaluation.

4.29 When agreeing to fund new posts as part of the 2015–16 Budget process, the Government requested the Minister for Foreign Affairs and Trade to report on the effectiveness and contribution made by these new posts to Australian policy objectives ahead of the 2017–18 Budget process. DFAT briefed the Minister and the Government advising that new posts have made a significant contribution to some policy and operational objectives.<sup>95</sup> The briefing also highlights that several of the posts operate in a new and more cost effective manner through a 'hub and spoke arrangement'.<sup>96</sup> The evaluation reports output without providing the context of performance measures, targets and baselines to demonstrate the achievement of efficiencies and service improvements relative to other posts. In September 2017, DFAT briefed its Executive Committee on the savings, investments, costs and revenues associated with the implementation of 60 recommendations.

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Grant Hehir  
Auditor-General

Canberra ACT  
21 May 2018

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94 A baseline and methodology was not established for measuring staff productivity gains until more than 12 months into the project and after initial productivity gains had been returned to the Budget. The methodology relied on qualitative measurement including surveys and working groups. In early 2017 an internal audit of the records management project noted the data elements to be used in measuring benefit realisation had not been articulated or approved.

95 The contributions included: promoting jobs and growth; improving access to, and the timeliness and effectiveness of, consular and passport services; and advancing some objectives of Australia's aid program.

96 For example, two new posts have been established with corporate spoke arrangements that have reduced administrative and operating arrangements. In particular, the Phuket post operates with only one Australian based officer, supported by local staff. No further information is provided to demonstrate cost effectiveness and efficiency.

# Appendices

## Appendix 1 Entity responses

### Australian Bureau of Statistics



ABS House  
45 Benjamin Way  
Belconnen ACT 2617

Locked Bag 10  
Belconnen ACT 2616  
Telephone: (02) 6252 6705



**Ms Lisa Rauter**  
**Group Executive Director Performance Audit**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**  
**AUSTRALIA**

Dear Ms Rauter,

Thank you for your correspondence dated 23 March 2018 regarding the Australian National Audit Office's (ANAO) proposed audit report on the Efficiency through Contestability Programme.

I appreciate the opportunity to respond to matters raised in the proposed report. I note that we have provided operational comments to your office to assist with the finalisation of the report.

Yours sincerely

  
Jonathan Palmer  
13 April 2018



## Comcare



**Australian Government**

**Comcare**

CHIEF EXECUTIVE OFFICER  
P 02 6275 0001

20<sup>th</sup> April 2018

Ms Lisa Rauter  
Group Executive Director  
Performance Audit  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

To be sent via email : [lisa.rauter@anao.gov.au](mailto:lisa.rauter@anao.gov.au)

Dear Ms Rauter *Lisa*

**Efficiency through Contestability Programme- Cross Entity**

Thank you for the opportunity to participate in the Australian National Audit Office (ANAO) Performance Audit titled 'Efficiency through Contestability Programme'. Comcare considers the Audit confirmed our approach in seeking more efficient and effective ways of designing and delivering government policies, programs and services. Comcare is pleased with the depth and breadth of the audit.

The recommendation of a market based improvement for Comcare to outsource the management of claims for selected entities, supports Comcare's initial Claims Pilot Project, and has subsequently been supported by the Government's direction to provide an option for agencies to outsource the management of Workers' Compensation Claims.

It is pleasing that the Audit acknowledged Comcare as being at the forefront of implementation planning with established reporting, inclusive of milestones, performance measures and lines of accountability, underpinning our insurable risk maturity and experience in delivering the scheme from deficit to fully funded.

Comcare considers the commentary referencing the development of the implementation plan is an accurate reflection of our position and endeavours. The review's recommendations provide validation of Comcare's Corporate Plan and strategy to achieve better practice in the management of Workers' Compensation claims.

On behalf of Comcare I thank you for the opportunity to comment.

Yours sincerely

  
Jennifer Taylor

GPO BOX 9905  
CANBERRA ACT 2601  
P 1300 366 979  
COMCARE.GOV.AU

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## Department of Education and Training



Australian Government  
Department of Education and Training

Secretary  
Dr Michele Bruniges AM

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

*Grant*  
Dear Mr Hehir

### Performance audit: Efficiency through Contestability Programme

I refer to your request of 23 March 2018 seeking a response to the proposed audit report on the Efficiency through Contestability Programme.

Please find below the Department of Education and Training's response for noting in the report summary:

*The Department of Education and Training acknowledges the Australian National Audit Office's (ANAO) report and the associated work undertaken on the Efficiency through Contestability Programme. The department also acknowledges that there are no recommendations or findings to which it needs to respond.*

If you would like to discuss further, please contact Marcus Markovic, Chief Financial Officer, Finance, Technology and Business Services Group on 02 6240 8921.

Yours sincerely

*Michele Bruniges*

Dr Michele Bruniges AM

10 April 2018

*Opportunity through learning*

50 Marcus Clarke Street, Canberra ACT 2601  
GPO Box 9880, Canberra ACT 2601 | Phone (02) 6121 6000

## Department of Jobs and Small Business



Australian Government  
Department of Jobs and Small Business

Our Ref EC18-000930

Secretary

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

  
Dear Mr Hehir

**Department of Jobs and Small Business response to the Section 19 Report:  
*Efficiency through Contestability Programme***

Thank you for the opportunity to respond to the Australian National Audit Office's (ANAO) cross-entity performance audit of the *Efficiency through Contestability Programme* pursuant to section 19 of the *Auditor-General Act 1997*.

The Department of Jobs and Small Business agrees with the key learnings identified by the ANAO. It notes the importance of effective programme design, having in place meaningful governance and risk management procedures, and appropriate performance and impact measurements, to promote the effective and efficient expenditure of taxpayer's money.

Attached is the Department's comments on the Section 19 Report: *Efficiency through Contestability Programme*.

Yours sincerely

Kerri Hartland  
12 April 2018

**Department of Jobs and Small Business comments on the Section 19 Report:  
*Efficiency through Contestability Programme***

The Department of Jobs and Small Business agrees with the key learnings from the audit and was pleased the Australian National Audit Office found the Department had, in the context of the Commonwealth's Insurable Risk Contestability Review:

- developed implementation plans for the accepted recommendations including milestones, performance measures and lines of accountability;
- demonstrated implementation was in accordance with these plans and had a structured approach to monitoring and reporting on implementation; and
- had evaluated and reported the outcomes of implementation.

Department of Environment and Energy



**Australian Government**  
**Department of the Environment and Energy**

Finn Pratt AO PSM  
Secretary

Ref: EC18-000313

Grant Hehir  
Auditor-General  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

Dear Mr Hehir 

Thank you for the opportunity to respond to the Australian National Audit Office's proposed report *Efficiency through Contestability Programme*.

The Department appreciates the efforts of the ANAO to assess the effectiveness of the Efficiency through Contestability Programme. The Department recognises the importance of the programme in helping agencies improve the efficient delivery of government functions.

The Department of the Environment and Energy notes the report's findings and will take these into account for future efficiency reviews.

Yours sincerely



Finn Pratt  
April 2018



**Australian Government**  
**Department of Finance**

Rosemary Huxtable PSM  
Secretary

Our Ref: SEC0015406

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GO Box 707  
CANBERRA ACT 2601

Dear Mr Hehir

I refer to Ms Lisa Rauter's correspondence of Friday 23 March 2018 providing the Australian National Audit Office's (ANAO) proposed audit report (the Report) on the Efficiency through Contestability Programme, pursuant to section 19 of the *Auditor-General Act 1997*.

Thank you for the opportunity to respond to the matters raised in the Report. Finance's response is:

Finance notes the findings and key learnings in the Report.

Finance remains committed to assisting the ANAO with the successful completion of this audit and I look forward to the release of the Final Report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Huxtable'.

Rosemary Huxtable  
Secretary

15 April 2018

## Department of Foreign Affairs and Trade



**Australian Government**  
**Department of Foreign Affairs and Trade**

Secretary

Telephone: 02 6261 2214  
 Facsimile: 02 6273 2081  
 Email: frances.adamson@dfat.gov.au

File Number: 17/15140

30 April 2018

Mr Grant Hehir  
 Auditor-General  
 Australian National Audit Office  
 19 National Circuit  
 Barton ACT 2600

*Dear Grant*

I understand the ANAO has recently completed its performance audit of the Government's *Efficiency through Contestability Programme*. I would like to thank you, and your staff, for the audit and the provision of the section 19 report for comment.

I provide the following as the department's response to the section 19 report.

*DFAT thanks the ANAO for this audit and observations on DFAT's implementation of the Functional and Efficiency Review (FER) recommendations. DFAT's FER delivered \$50.5 million of savings and generated \$221.5 million in additional revenue.*

*Of the 75 recommendations identified in the FER, 33 have been implemented. Implementation plans were in place for 23 recommendations, 12 of which have been fully implemented. Implementation plans were used where the recommendation was assessed by DFAT as having a level of complexity and risk that required additional oversight and governance.*

My contact officer for this matter is Mr Paul Wood, Chief Financial Officer. He can be contacted on 02 6261 1240.

Yours sincerely

Frances Adamson

R G Casey Building, Barton ACT 0221 [www.dfat.gov.au](http://www.dfat.gov.au)



Australian Government

Department of Health

Secretary

Ms Lisa Rauter  
Group Executive Director Performance Audit  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Rauter

**Department of Health response to the Proposed Audit Report - Efficiency through Contestability Programme**

Thank you for providing the Australian National Audit Office's (ANAO) proposed report under section 19 of the *Auditor-General Act 1997* on the *Efficiency through Contestability Programme*. I appreciate the opportunity to respond to the report.

The following wording has been provided for the Summary Response:

*The Department of Health was one of the key departments reviewed by the ANAO in assessing the effectiveness of the Efficiency through Contestability Programme. The Department notes that nearly all projected budget savings for the Programme came from the four reviews contained in the ANAO report, most attributed to the Department of Health.*

*The Programme, along with other reviews being undertaken in the Department at that time, assisted in identifying opportunities for efficiencies and improvements to be made in organisational capability. The ANAO acknowledged the large number of recommendations to be implemented by the Department and the well developed implementation plans. The Report also highlighted that the recommendations of the Programme were integrated into the Health Capability Program Action Plan which had been developed to respond to the Health Functional and Efficiency Review.*

*The Department agrees with the ANAO's key learnings for agencies identified in the Report focussing on programme design, governance and risk management, and performance and impact measurement outlined on pages seven and eight of the Report.*

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Scarborough House, Level 14, Atlantic Street, Woden ACT 2606 - GPO Box 9848 Canberra ACT 2601 - [www.health.gov.au](http://www.health.gov.au)



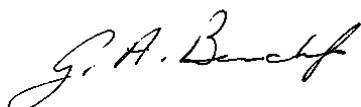
- 2 -

*Since the reviews, the Department has undergone a number of structural changes and Machinery of Government changes. The outcomes of the reviews and learnings identified in the ANAO report will contribute to the ongoing need to improve organisational performance to support implementation of the Government priorities and ensure the Department is seen as a high performing agency.*

I would like to thank the ANAO for its professionalism throughout the audit of the Efficiency through Contestability Programme and the collaborative way in which it was conducted.

If you have any questions regarding the Department's response, please contact Mr Ben Sladic on (02) 6289 1886.

Yours sincerely



Glenys Beauchamp

17 April 2018

## Department of Home Affairs



Australian Government  
Department of Home Affairs

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Lisa Rauter  
Group Executive Director  
Performance Audit Services  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Ms Rauter,

Thank you for the opportunity to provide comments on the ANAO's audit report on *Efficiency through Contestability Programme*.

The Department of Home Affairs agrees with the content as outlined in the report and has no further suggested amendments/comments.

Thank you for your conduct of this Audit and I am pleased that we were able to assist your office through the process of the Audit.

If you would like to further discuss our response to the Report, please contact Mr David Norris (Assistant Secretary, Audit and Assurance) on [david.norris@homeaffairs.gov.au](mailto:david.norris@homeaffairs.gov.au) or (02) 6264 2022.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cheryl-anne Moy'.

**Cheryl-anne Moy**  
Chief Audit Executive  
First Assistant Secretary  
Integrity, Security and Assurance Division

25 April 2018

## Department of Human Services



**Australian Government**  
**Department of Human Services**

Our Ref: EC18-000598

Acting Secretary  
Andrew Wood PSM

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

  
Dear Mr Hehir


Thank you for providing the Department of Human Services (the department) with the opportunity to comment on the extract of the Australian National Audit Office's (ANAO) proposed report on the *Efficiency through Contestability Programme*.

The department notes the report's findings. The department also notes that the report does not identify any issues or make any recommendations that are specific to the department.

Attachment A to this letter provides the department's formal response to the proposed report. Attachment B includes a suggested change to the text of the report.

Ms Rob Priddin, Acting National Manager, Governance is the department's contact for this matter. Ms Priddin can be contacted on 02 6133 0592 or [rob.priddin@humanservices.gov.au](mailto:rob.priddin@humanservices.gov.au).

Yours sincerely

  
Andrew Wood  
12 April 2018

PO Box 7788, Canberra Business Centre ACT 2610 | Phone (02) 6223 4411 | [www.humanservices.gov.au](http://www.humanservices.gov.au)

## **Attachment A**

### **Response to the section 19 report on the performance audit of the Contestability through Efficiency Programme**

#### **Summary of response for inclusion in 'Summary' section of report**

The Department of Human Services (the department) notes the report's findings. The department also notes that the report does not identify any issues or make any recommendations that are specific to the department.

## Department of Social Services



**Australian Government**  
**Department of Social Services**

Chief Operating Officer

Ms Lisa Rauter  
Group Executive Director Performance Audit  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Rauter

Thank you for your email of 23 March 2018 to the Secretary providing the proposed audit report on the Department of Finance Efficiency through Contestability Programme.

The Department of Social Services welcomes the key learnings identified by the Australian National Audit Office through this audit in relation to the performance of Australian Government entities. The findings will inform our practices to ensure that policies and programmes are implemented efficiently and effectively, having regard to best practice programme design, governance, risk management and performance and impact measurement.

I note the report's finding that the department has successfully implemented, or is in the process of implementing, all 12 recommendations accepted as part of the Functional and Efficiency Review. In doing so, the department has contributed \$3.21 billion of the total \$5 billion in savings identified by all agencies over the Forward Estimates through the Reviews generally.

The department's response to the proposed report is attached. For further information, please contact Mr Adrian Hudson, Group Manager, Corporate Services Group, on 02 6146 0518 or by email at [Adrian.Hudson@dss.gov.au](mailto:Adrian.Hudson@dss.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Kelley'.

Roxanne Kelley  
18 April 2018

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[www.dss.gov.au](http://www.dss.gov.au)

**Department of Social Services' response to the proposed audit report on the Efficiency through Contestability Programme**

The Department of Social Services (the department) welcomes the conclusion and key learnings for Australian Government entities identified in the audit report on the Efficiency through Contestability Programme. The audit report notes that 12 recommendations were accepted by the Government and/or the department during the department's Functional and Efficiency Review in 2015. Since the ANAO concluded its fieldwork for this audit an additional three recommendations from the department's 2015 Functional and Efficiency Review have been accepted, or partially accepted, and are being implemented. These include the cessation of Sickness Allowance and Utilities Allowance, which formed part of the *Social Services Legislation Amendment (Welfare Reform) Act 2018* and the introduction of a family income test for Carer Allowance, subject to the passage of the Social Services Legislation Amendment (Payment for Carers) Bill 2018.

The department notes that of the total \$5 billion in savings across the Forward Estimates achieved by all agencies, the department contributed \$3.21 billion of these savings.

## Appendix 2 Entities selected for inclusion in the audit

Entity	Functional and Efficiency Review	Contestability Review
Department of Employment	Yes	Management of the Commonwealth's Insurable Risk
Department of Finance	Yes	Commonwealth Property Services Communications Functions The Provision of Policy Advice to Government (Phase Two) More Efficient and Streamlined Business Processes Management of the Commonwealth's Insurable Risk * Ministerial and Parliamentary Services (completed as part of the Department of Finance Functional and Efficiency Review)
Department of Foreign Affairs and Trade	Yes	Management of the Commonwealth's Insurable Risk
Department of Health	Yes	The Provision of Policy Advice to Government (Phase One) Anti-Doping Sample Collection and Anti-Doping Analysis
Department of Social Services	Yes	Delivery of Social Services to Citizens
Australian Bureau of Statistics	Yes	Australian Bureau of Statistics' Contestability Review into Survey Management Functions
Australian Public Service Commission	No	Unlocking Potential: Australian Public Service Workforce Management
Australian War Memorial	Yes	No
Department Industry, Innovation and Science	Yes	The Provision of Policy Advice to Government (Phase One) Interface between Government and Business
Department of Agriculture and Water Resources	Yes (also Commonwealth Water Functions)	No
Department of Environment and Energy	Yes (also Commonwealth Water Functions and Bureau of Meteorology)	No
Department of Human Services	Yes	Communications Functions
Department of Infrastructure and Regional Development	Yes	Aviation Rescue and Fire Fighting Services

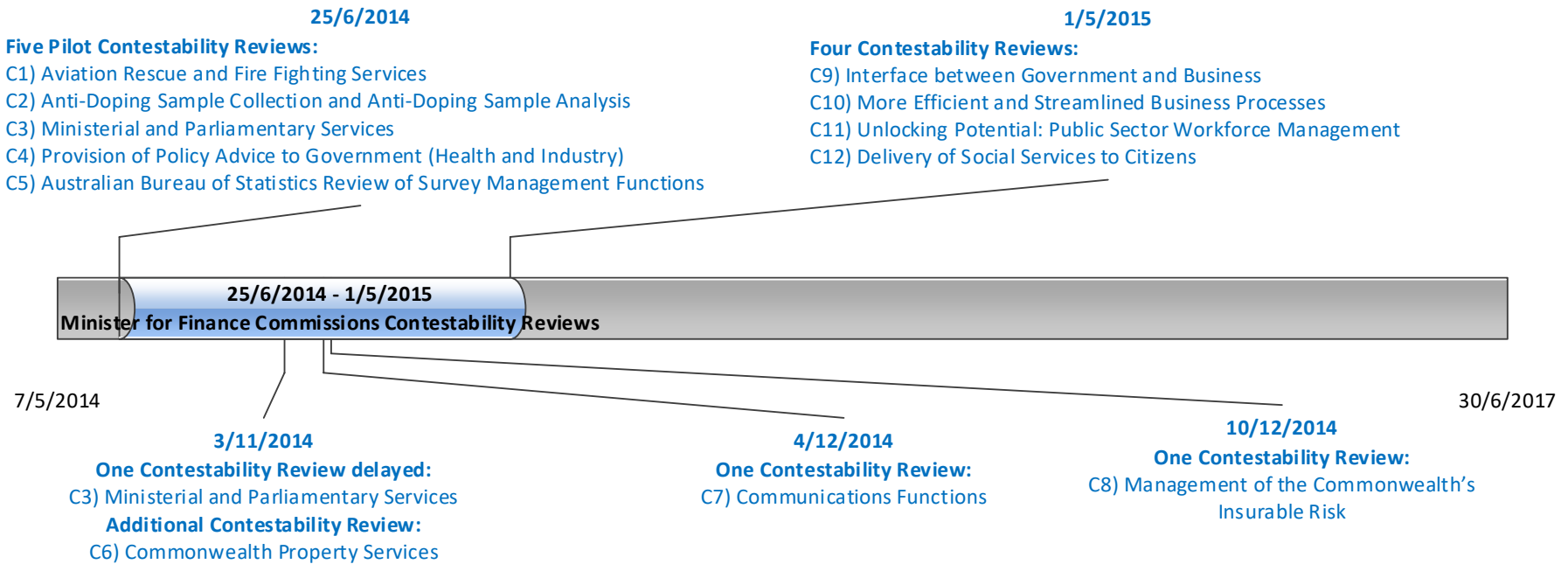
Entity	Functional and Efficiency Review	Contestability Review
Comcare	No	Management of the Commonwealth's Insurable Risk
Attorney-General's Department	Yes	No
Australian Taxation Office	Yes	No
Department of Prime Minister and Cabinet	Yes	APSC Unlocking Potential: Australian Public Service Workforce Management
Department of Immigration and Border Protection	Yes	No
Department of Veterans' Affairs	Yes	Management of the Commonwealth's Insurable Risk
Department of Education and Training	Yes	No
Australian Sports Anti-Doping Authority	No	Anti-Doping Sample Collection and Anti-Doping Sample Analysis
Bureau of Meteorology	Yes	No
Murray Darling Basin Authority	Commonwealth Water Functions	No
Australian Federal Police	Yes	No
Department of the Treasury	Yes	No

Source: ANAO summary of Finance documentation.



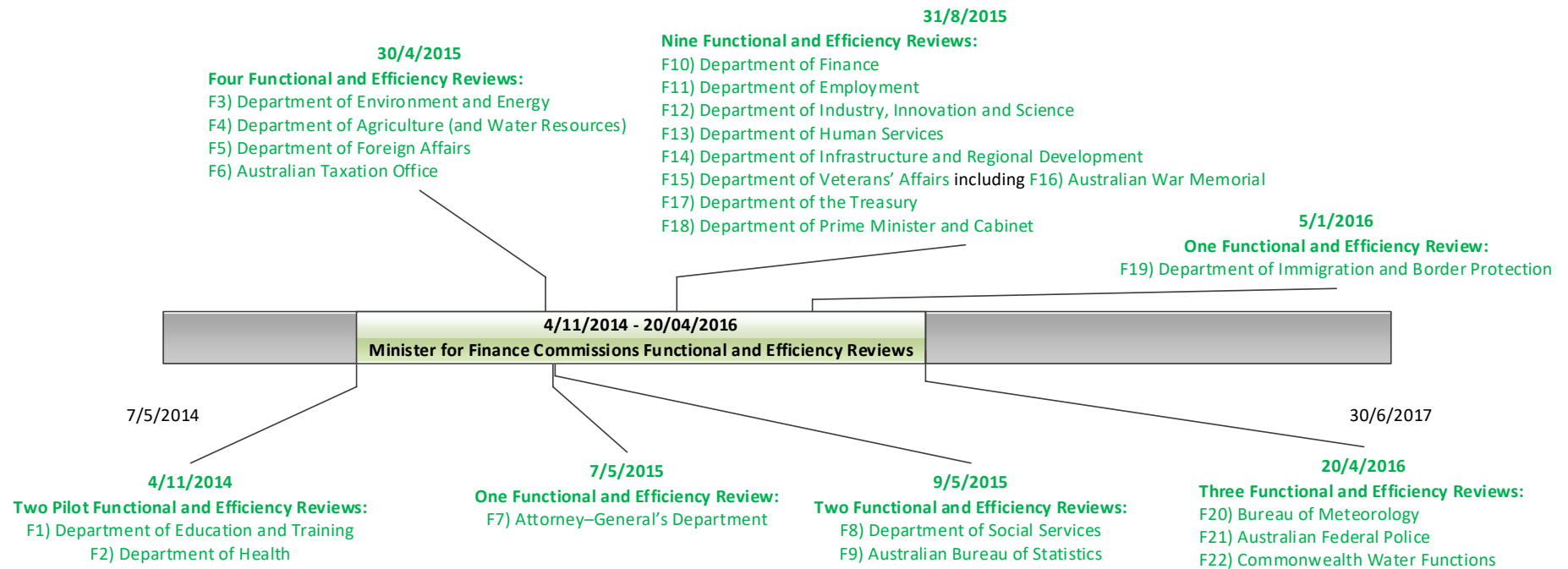
## Appendix 3 Timelines for Minister for Finance commissioning reviews

Figure A.1: Minister for Finance commissioning Contestability Reviews



Source: ANAO analysis of Finance and other entity documentation.

**Figure A.2: Minister for Finance commissioning Functional and Efficiency Reviews**

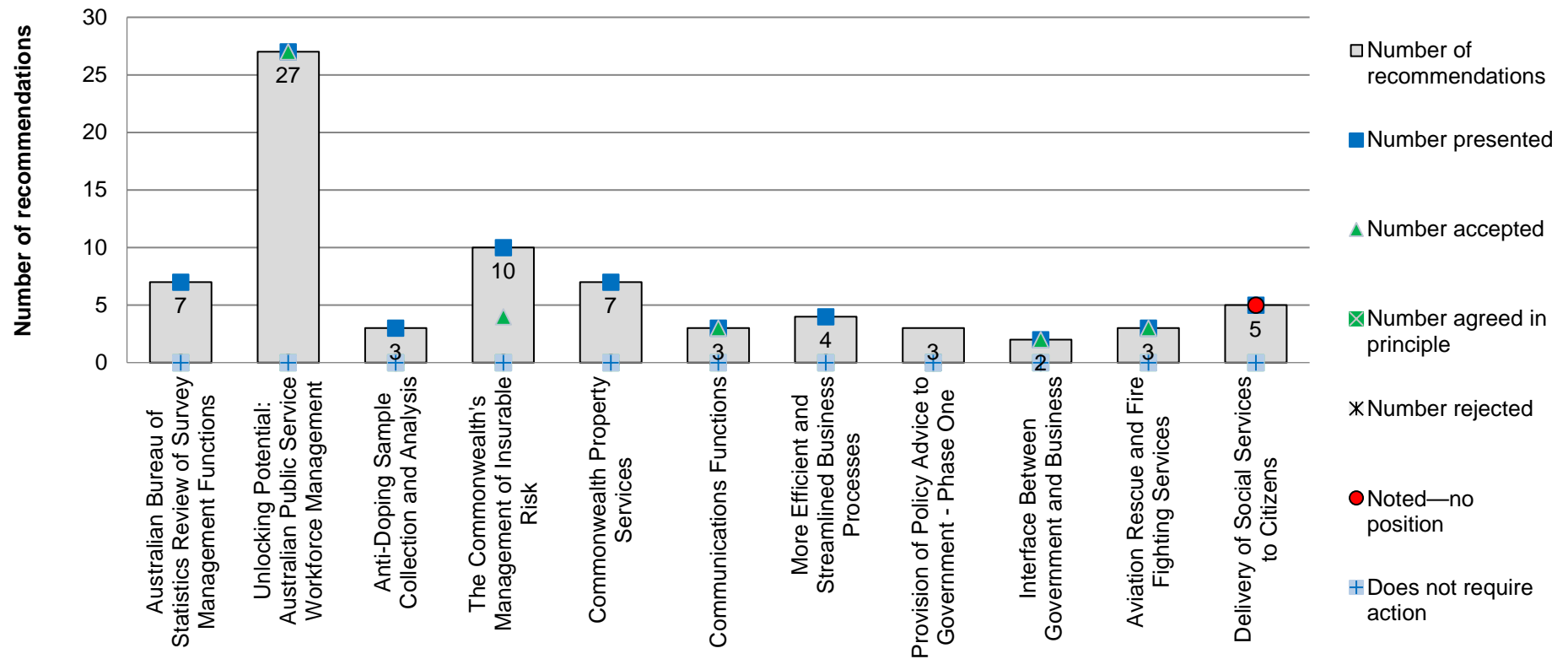


Note a: On 27 October 2014 the Government agreed to conduct two pilot Functional and Efficiency Reviews. The Government also agreed to the terms of reference for each of these reviews and the timeframes for completing the reviews. On 4 November 2014 the Finance Secretary wrote to the Secretary of each of the pilot entities notifying them of the review commissioning.

Source: ANAO analysis of Finance and other entity documentation.

## Appendix 4 Agreed recommendations from Contestability Reviews

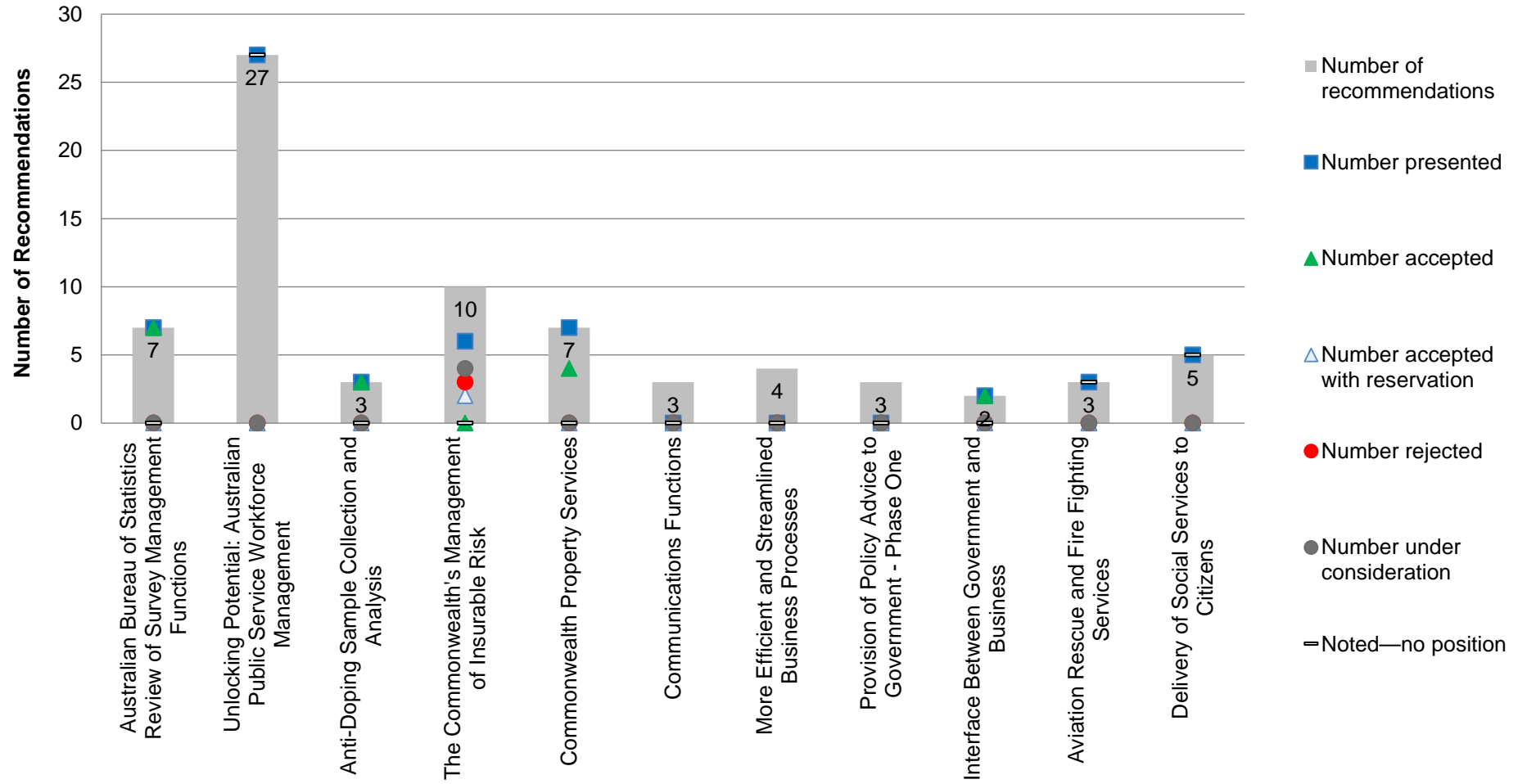
Figure A.3: Contestability Review recommendations presented to Accountable Authority



Note a: The Accountable Authority of Department of Veterans' Affairs accepted all four of the recommendations for the Management of the Commonwealth's Insurable Risk Contestability Review.

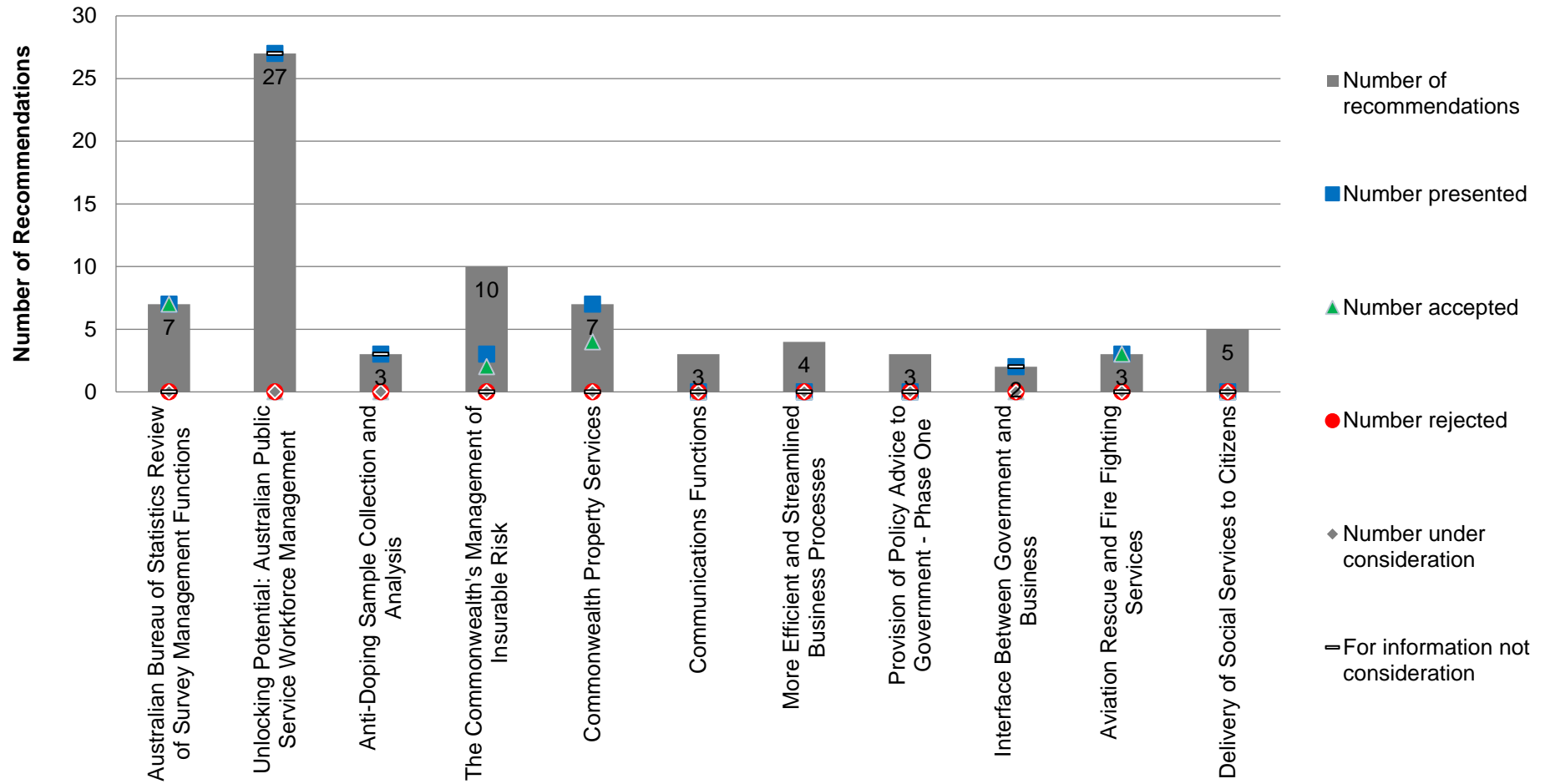
Source: ANAO analysis.

**Figure A.4: Contestability Review recommendations presented to Minister**



Source: ANAO analysis.

**Figure A.5: Contestability Review recommendations presented to the Government**



Source: ANAO analysis.

## Appendix 5 Functional and Efficiency Review costs

Costs incurred by entities undertaking Functional and Efficiency Reviews.

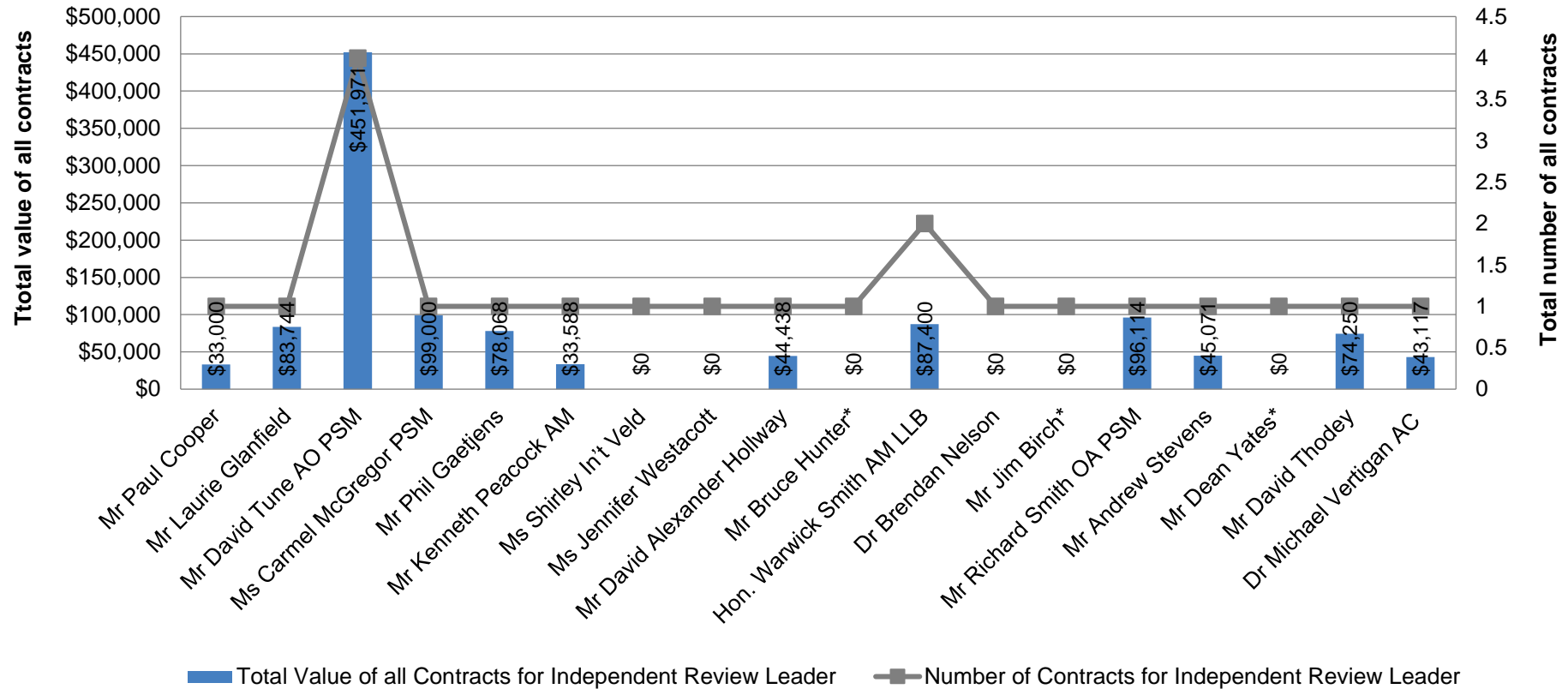
**Table A.1: Costs of undertaking reviews**

	Independent Review leader	Secretariat – contractor	Internal staff	Other contracts and costs
Agriculture and Water Resources*	\$33 000	\$550 000	No information	No information
Attorney General's*	\$83 744	No contracted secretariat	No information	No information
Australian Bureau of Statistics	\$66 000	\$461 560	\$188 500	No information
Australian Federal Police	\$99 000	\$620 000	No information	No information
Australian Taxation Office	\$78 068	\$560 332	\$324 323	\$343 871
Australian War Memorial	\$33 588	\$51 939	\$49 405	\$9 204
Bureau of Meteorology	\$58 814	\$402 674	No information	\$279 241
Education and Training*	No cost	\$621 154	No information	No information
Employment*	\$44 438	\$575 578	\$178 892	No information
Environment and Energy*		\$685 000	No information	No information
Finance*	\$22 500	\$800 000	No information	\$93 436
Foreign Affairs and Trade*	No cost	\$537 900	\$322 554	\$17 500
Health*		\$869 000	\$240 000	No information
Human Services*	\$198 000	\$195 250	No information	No information
Immigration and Border Protection*	\$96 114	\$805 730	\$285 444	\$3 269
Industry, Innovation and Science*	\$45 071	\$544 500	\$197 548	No information
Infrastructure and Regional Development*	\$64 900	\$646 100	No information	No information
Commonwealth Water Functions		\$295 257	No information	No information
Prime Minister and Cabinet*	\$74 250	\$770 000	\$295 063	\$58 148
Social Services*	\$198 000	No contracted secretariat	\$250 000	No information.
Treasury*	\$43 117	\$630 000	\$209 000	No information
Veterans' Affairs*	\$55 971	\$184 300	\$258 200	No information

Note a: Entities marked with an \* are Departments of State.

## Appendix 6 Independent review leader and secretariat contracts

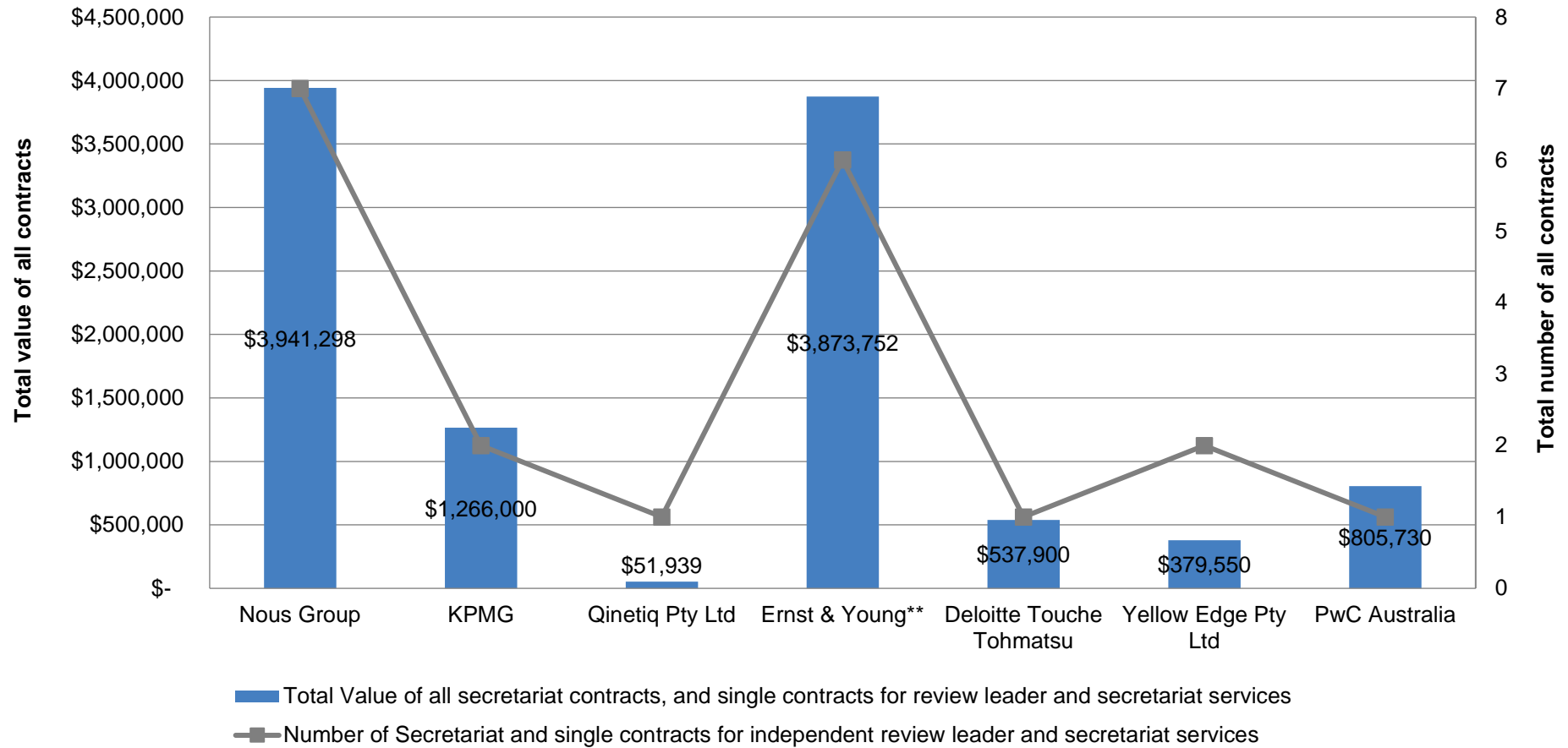
Figure A.6: Total number and value of all contracts for independent review leaders



Note a: Independent review leaders marked with an \* were engaged through a single contract for the independent review leader and secretariat services, the value of these contracts is shown in the Figure titled "Total number and value of all contracts for secretariat and combined contracts for independent review leaders and secretariats of Functional and Efficiency Reviews" (Figure A.7).

Source: ANAO analysis.

**Figure A.7: Total number and value of all contracts for secretariat and combined contracts for independent review leaders and secretariats of Functional and Efficiency Reviews**



Note a: Ernst & Young are marked with a \*\* as they were engaged through a single contract for the independent review leader and secretariat services for two of the six reviews for which they provided services, the value of these contracts is shown in this Figure A.7.

Source: ANAO analysis.



