

Audit Report No.26 2011–12

Capacity development for Indigenous service delivery

Introduction

- 4.1 The capacity of an organisation refers to its ability to deliver the programs or services for which it is funded, and to the required standards. Capacity will have a strong influence on an organisation's effectiveness in meeting the outcomes sought by government.¹
- 4.2 The Australian National Audit Office (ANAO) explained in its audit report that capacity constraints to service delivery present risks to the achievement of outcomes and require an appropriate response from those government departments tasked with administering the funding. The ANAO audit was framed around this premise and examined how the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Health and Ageing (DoHA) sought to address potential capacity constraints in Indigenous organisations.²
- 4.3 The three audited departments administer the bulk of the Australian Government Indigenous Expenditure (AGIE), with programs and services being delivered through a range of mechanisms including National Partnership Agreements with state and territory governments, funding

1 Australian National Audit Office (ANAO) Audit Report No.26 2011–12, p. 18.

2 ANAO Audit Report No.26 2011–12, p. 18.

agreements with local government bodies, contracts with private sector entities and agreements with other third party organisations.³

4.4 In terms of third party service delivery, Indigenous organisations play an important role by delivering programs and services to Aboriginal and Torres Strait Islander people, especially in remote communities. Out of the total AGIE of \$3.5 Billion in 2010–11, an estimated \$1.34 billion was directed to grants for Indigenous organisations to provide services.⁴

4.5 Indigenous organisations are broadly defined as Indigenous controlled organisations that are based in, or primarily serving, Indigenous communities; initiated by an Indigenous community or group; and governed by an Indigenous body. There are an estimated 9000 Indigenous organisations across Australia.⁵

4.6 These organisations deliver a range of programs and services, particularly in remote areas, including aged care; child care; youth and family services; employment preparation; primary health care; legal aid; community development; family violence prevention; municipal services; sport and recreation; community safety; arts and cultural heritage services; and native title representations. While in some cases, particularly in remote communities, Indigenous organisations may be the only provider of services, in other places they may be the service provider of choice due to their ability to provide a more culturally appropriate service.⁶

4.7 The capacity of organisations may be influenced by:

- Factors internal to an organisation, such as the strength of governance structures; the sophistication of financial management systems and processes; infrastructure; resources; and staff skills.
- External factors from the organisation's operating environment, such as location; overall funding patterns and approaches; red tape; the presence of other services; community circumstances; and the ability to attract and retain suitable staff.⁷

4.8 The topic of Indigenous service delivery has been an important facet of the government's Indigenous policy agenda for quite some time, with capacity development for Indigenous organisations a focus of government reviews and reports since the late 1980s. More recently, governments have signed agreements and developed compacts in support of Indigenous service delivery.

3 ANAO Audit Report No.26 2011–12, pp. 31–32.

4 ANAO Audit Report No.26 2011–12, p. 32.

5 ANAO Audit Report No.26 2011–12, pp. 32–33.

6 ANAO Audit Report No.26 2011–12, pp. 32–33.

7 ANAO Audit Report No.26 2011–12, p. 35.

- 4.9 In 2008, the Council of Australian Governments (COAG) agreed to the National Indigenous Reform Agreement, which included six Service Delivery Principles to 'guide the design and delivery' of government programs and services. Of most relevance, the 'Sustainability' principle gives particular attention to 'building the capacity of both Indigenous people and of services to meet the needs of Indigenous people'.⁸
- 4.10 In a 2010 report, the Productivity Commission found that the not-for-profit sector's efficiency and effectiveness in delivering services was being hampered by inadequate contracting processes, including overly prescriptive requirements, micro-management, the need to return surplus funds, and inappropriately short-term contracts.⁹
- 4.11 Additionally, in 2010 the Government released a National Compact to guide relations with the not-for-profit sector. Priority action areas identified in the compact include strengthening the capacity of the sector, information sharing, reducing red tape, streamlining reporting, simpler financial arrangements and improving funding processes.¹⁰

Audit objective and scope

- 4.12 The objective of the audit was to assess the extent to which FaHCSIA, DEEWR and DoHA seek to reduce service delivery risks posed by capacity constraints in Indigenous organisations. The ANAO assessed:
- approaches taken by the three departments to identify and mitigate risks to outcomes posed by the capacity of an organisation to deliver services; and
 - whether, in line with the COAG Service Delivery Principles for Programs and Services for Indigenous Australians, these three departments invested in the service delivery capacity of Indigenous organisations.¹¹

Audit conclusion

- 4.13 The ANAO's audit report indicated that, overall, more attention is required to better support service delivery capacity in Indigenous organisations. While the report noted some efforts had been made to improve support for capacity in Indigenous organisations, it also

8 ANAO Audit Report No.26 2011-12, p. 42.

9 ANAO Audit Report No.26 2011-12, p. 38.

10 ANAO Audit Report No.26 2011-12, pp. 43-44.

11 ANAO Audit Report No.26 2011-12, pp. 45-46.

suggested that the reforms have not been uniform across departments and progress has been uneven.¹²

4.14 The ANAO's findings fell into three main categories:

- influences on service delivery capacity;
- risk management for program and service delivery outcomes; and
- investment to support capacity for Indigenous service delivery.

4.15 Influences on capacity identified by the ANAO included the administrative burden placed on service providers as a result of government administrative frameworks. The ANAO highlighted that a large number of Indigenous-specific programs have been spread across multiple departments, and although the programs are generally low-value and often short-term, they each come with annual administrative arrangements which require a significant number of reports to be produced by the provider. The ANAO noted that these issues are not new, having been raised since the 1980s and more recently in the 2010 *Strategic Review of Indigenous Expenditure*.¹³

4.16 The ANAO found that further contributions were being made to the administrative burdens of service providers as departments sought to mitigate risks relating to the internal capacity of organisations by requiring more comprehensive reporting from them. The ANAO suggested that more strategic risk management approaches are needed that take into account the external factors influencing an organisation's ability to deliver outcomes. In particular, the level of reporting required from organisations needs to be commensurate with the actual level of risk.¹⁴

4.17 When looking at the investment being made to support Indigenous service delivery, the ANAO noted slow progress by departments in addressing administrative burdens, with reforms not always sustained or achieving anticipated results. Further, the ANAO found that service providers approaching departments for capacity building assistance found it difficult to access support. The ANAO noted that there were mixed views within departments on whether it was a government responsibility to assist organisations with capacity building, and that this was reflected in the limited guidance, and subsequent activities, to implement capacity development efforts.¹⁵

12 ANAO Audit Report No.26 2011-12, p. 20.

13 ANAO Audit Report No.26 2011-12, p. 22.

14 ANAO Audit Report No.26 2011-12, pp. 22-23.

15 ANAO Audit Report No.26 2011-12, p. 24.

- 4.18 Overall, the ANAO suggested that more formal and coordinated efforts are required, in particular a whole-of-government strategy on capacity development to provide a long term, integrated and consistent approach.¹⁶

ANAO recommendations

The audit report made three recommendations aimed at better positioning the three departments to invest in Indigenous organisations by: reviewing current funding arrangements; taking a more strategic approach to risk management; and developing a whole-of-government strategy for capacity development.¹⁷

Table 4.1 ANAO recommendations, Audit Report No.26 2011–12

1.	<p>To ensure funding arrangements adequately support the achievement of desired policy outcomes, the ANAO recommends that the departments review their current funding approaches and supporting arrangements, and where appropriate, consider other options to achieve program deliverables such as longer-term partnerships or core support.</p> <p>FaHCSIA's response: <i>Agreed.</i> DEEWR's response: <i>Agreed.</i> DoHA's response: <i>Agreed.</i></p>
2.	<p>To support service delivery arrangements and the achievement of desired policy outcomes in the longer-term, the ANAO recommends that the departments take a more strategic approach to risk management that gives greater consideration to the broader operating environment, and balances compliance requirements with the actual level of risk and the achievement of outcomes.</p> <p>FaHCSIA's response: <i>Agreed.</i> DEEWR's response: <i>Agreed.</i> DoHA's response: <i>Agreed.</i></p>
3.	<p>To implement the capacity development elements of the National Indigenous Reform Agreement the ANAO recommends that FaHCSIA, through the Executive Coordination Forum on Indigenous Affairs, facilitates the development of a whole-of-government strategy and an implementation approach to provide a long-term, integrated and consistent approach to capacity development across Australian Government departments.</p> <p>FaHCSIA's response: <i>Agreed.</i></p>

16 ANAO Audit Report No.26 2011–12, p. 24.

17 ANAO Audit Report No.26 2011–12, pp. 26–27.

The Committee's review

- 4.19 On 13 March 2013, the Committee held the second public hearing of its examination of Indigenous-related audit reports. Representatives from the following organisations appeared before the Committee to discuss Audit Report No.26:
- Australian National Audit Office
 - Department of Families, Housing, Community Services and Indigenous Affairs
 - Department of Education, Employment and Workplace Relations
 - Department of Health and Ageing.
- 4.20 The Committee also received some evidence relating to capacity development for Indigenous service delivery in response to questions on notice, in other written submissions and at its first public hearing on 6 February 2013.
- 4.21 The Committee's evidence covered the following issues:
- The importance of capacity building in Indigenous organisations
 - The role of government supporting capacity in Indigenous organisations
 - Capacity building within government
 - High number of separate Indigenous programs
 - Approaches to funding
 - Reporting and compliance burdens
 - Current capacity development initiatives
 - A whole-of-government capacity development strategy.

The importance of capacity building in Indigenous organisations

- 4.22 The capacity of Indigenous organisations – and governments – to deliver outcomes was a key item of focus during the Committee's review.
- 4.23 As noted above, the National Indigenous Reform Agreement, agreed to by COAG, gave prominence to capacity building in its Sustainability principle. Through its audit report, the ANAO concluded that, given the overall level of funding to Indigenous organisations:

... the service delivery capacity of Indigenous organisations is an important element in delivering government programs effectively and a relevant area for attention by these departments.¹⁸

18 ANAO Audit Report No.26 2011-12, p. 20.

- 4.24 During the Committee's first public hearing, the Coordinator General for Remote Indigenous Services said that capacity development was a 'critical issue' for remote service delivery, and an area of focus in his reports. Overall, 13 of the 38 recommendations made in his six reports to date related to capacity development issues.¹⁹
- 4.25 At another hearing, FaHCSIA similarly discussed how difficult it could be for organisations to build their capability and capacity to deliver on their funding agreements and program guidelines, and the role of the department in providing assistance on a case by case basis.²⁰

The role of government supporting capacity in Indigenous organisations

- 4.26 The ANAO's report noted that there were 'mixed views' within the departments under audit on the responsibility of government to assist in developing capacity in third party organisations. An ANAO survey in the three departments found that 63 per cent of Senior Executive Staff considered it was the service provider's responsibility to ensure sufficient capacity to deliver services, with a smaller proportion considering that government departments had a role.²¹
- 4.27 In its response to the audit report, DoHA indicated that it considered capacity building to be a shared responsibility of the sector and the Commonwealth. It noted that while the audit report had advocated more assistance from the Commonwealth, the Aboriginal and Torres Strait Islanders community controlled health sector's claim was that 'responsibility for improvement lies within the sector'.²²
- 4.28 At a public hearing, DoHA's Office for Aboriginal and Torres Strait Islander Health (OATSIH) told the Committee that it was working in partnership with the sector's peak body, the National Aboriginal Community Controlled Health Organisation (NACCHO), on capacity building strategies. This included funding NACCHO to develop a program of capacity building and governance improvement for the sector, with NACCHO rolling the initiatives out on the ground with its member organisations.²³

19 Mr Brian Gleeson, Coordinator General for Remote Indigenous Services, *Committee Hansard*, Canberra, 6 February 2013, p. 2.

20 Mr Michael Dillon, Deputy Secretary, FaHCSIA, *Committee Hansard*, Canberra, 13 March 2013, p. 2.

21 ANAO Audit Report No.26 2011-12, p. 94.

22 ANAO Audit Report No.26 2011-12, p. 26.

23 Ms Samantha Palmer, First Assistant Secretary, OATSIH, Department of Health and Ageing, *Committee Hansard*, Canberra, 13 March 2013, p. 5.

Capacity building within government

- 4.29 Although the audit report focused on the capacity of Indigenous organisations to deliver outcomes for government, several inquiry participants pointed out to the Committee that capacity within government agencies was also an issue of concern.
- 4.30 In a written submission, the National Congress of Australia's First Peoples (the Congress) said that:
- In our view there has been a great deal of focus in recent years on the corporate governance of Aboriginal and Torres Strait Islander organisations, such as the work of the Office of the Registrar of Indigenous Corporations (ORIC), and far too little attention paid to how Government itself operates in our communities.²⁴
- 4.31 The Congress added that there was an 'urgent need for agencies to focus on their own capacity building', particularly in regard to the capacity and experience of non-Indigenous officers in the public sector:
- In the experience of Congress and its members, non-Aboriginal government employees too often lack the knowledge, experience and cultural competency to engage appropriately with Aboriginal and Torres Strait Islander peoples. This is particularly the case in remote communities, where current service delivery models, particularly fly-in, fly-out arrangements, undermine efforts to build appropriate and effective relationships with the communities.²⁵
- 4.32 The Congress pointed to a suggestion in the 2010 *Strategic Review of Indigenous Expenditure* for a 'paradigm shift in the value placed on investing in structured training, recognising and valuing skills and experience in working in the Indigenous affairs arena'.²⁶
- 4.33 The Congress submission also raised concerns about the declining representation of Aboriginal and Torres Strait Islanders in the public sector. Despite commitments to increase representation to 2.7 per cent by 2015, the submission noted that the representation of ongoing Indigenous employees in the Australian Public Service had declined from 2.3 per cent in 2009 to 2.1 per cent in 2012, continuing a longer term trend over the past two decades. Indigenous representation at senior levels was even lower, at only 0.6 per cent of Senior Executive Service employees in 2012.²⁷
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24 National Congress of Australia's First Peoples, *Submission 3*, p. 4.

25 National Congress of Australia's First Peoples, *Submission 3*, pp. 5-6.

26 National Congress of Australia's First Peoples, *Submission 3*, p. 6.

27 National Congress of Australia's First Peoples, *Submission 3*, p. 6-7.

- 4.34 As noted in Chapter 2, in his submission the Aboriginal and Torres Strait Islander Social Justice Commissioner referred the Committee to his recent recommendation that the Government ‘builds its own capacity to enable and support effective Indigenous governance’.²⁸
- 4.35 The Coordinator General for Remote Indigenous Services also highlighted in his evidence before the Committee that the capacity of government was ‘equally important’ to that of non-government organisations.²⁹ As noted in Chapter 2, the Coordinator General said that there was increasing Indigenous representation on jurisdictional boards of management within the Remote Service Delivery model:
- More recently there has been a move to include Indigenous representation on those boards. It is already happening in South Australia, it is happening in New South Wales and is starting to happen in other places. I think that is good progress when they sit with other government public servants talking about [the] things being delivered.³⁰
- 4.36 The government departments involved in the Committee’s review showed some recognition of the need to develop their own capacities. DEEWR told the Committee that it had worked hard to improve the understanding of its staff of the Closing the Gap targets and to improve cultural competency. DEEWR was also close to reaching its target of over six per cent Indigenous employment, which was being achieved through ‘a big focus on Indigenous specific recruitment pathways into DEEWR, such as traineeship programs and cadetship graduates’.³¹
- 4.37 DEEWR also noted that it was important to invest in internal capability not just in its Indigenous-specific programs, but also in its mainstream programs.³²
- 4.38 In a joint response to questions on notice taken at a hearing, DEEWR and FaHCSIA also noted work being done to improve their capacities. For DEEWR, this included an online cultural awareness training package for Job Services Australia staff.³³ FaHCSIA summarised work underway on a

28 Mr Mick Gooda, Aboriginal and Torres Strait Islander Social Justice Commissioner, *Submission 4*, p. [1]. See *Social Justice Report 2012: Aboriginal and Torres Strait Islander Social Justice Commissioner*, Australian Human Rights Commission, 2012, pp. 114–115, 121.

29 Mr Gleeson, *Committee Hansard*, Canberra, 6 February 2013, p. 2.

30 Mr Gleeson, *Committee Hansard*, Canberra, 6 February 2013, p. 6.

31 Ms Jo Wood, Group Manager, Indigenous Economic Strategy Group, DEEWR, *Committee Hansard*, Canberra, 13 March 2013, pp. 4–5.

32 Ms Wood, *Committee Hansard*, Canberra, 13 March 2013, p. 5.

33 DEEWR, *Submission 8*, p. 4.

COAG National Indigenous Governance and Leadership Framework, which would highlight the need to:

... increase the cultural competence of governments and their capacity to engage Aboriginal and Torres Strait Islander people in the development of policies and programs and the delivery of services'.³⁴

High number of separate Indigenous programs

- 4.39 As noted in Chapter 2, in 2011 there were 210 Indigenous-specific programs and sub-programs identified as making a contribution to the Closing the Gap initiative. These programs were administered by more than 40 different agencies across 17 portfolios, and the large number of programs places a heavy compliance burden on service providers.³⁵
- 4.40 In 2010, the Department of Finance and Deregulation's *Strategic Review of Indigenous Expenditure* found that there was 'a strong case to reduce the number of Indigenous-specific programs operating across the Commonwealth'. It identified 51 currently separate programs that could be consolidated into 18 continuing programs; 25 programs that could cease or be restructured; and 15 programs that could be transferred to state and territory governments.³⁶
- 4.41 Noting that the large number of Indigenous programs being administered across departments had been identified by the ANAO as a factor influencing the capacity of Indigenous organisations,³⁷ the Committee asked FaHCSIA in a written question what progress had been made across government to reduce the number of separate programs being delivered.
- 4.42 The response from FaHCSIA indicated that:
- ... most of the recommendations of the *Strategic Review of Indigenous Expenditure* have now been implemented, including the recommendations for program consolidation. A range of programs have been consolidated following the review, in particular programs in relation to Indigenous health care (recommendation 27), working on Country (recommendation 40), early childhood (recommendation 6.2), remote air services (recommendation 47), family support including related Indigenous specific services

34 FaHCSIA, *Submission 8*, p. 6.

35 ANAO Audit Report No.8 2012-13, pp. 15, 82.

36 Department of Finance and Deregulation, *Strategic Review of Indigenous Expenditure: Report to the Australian Government*, February 2010, p. 12.

37 ANAO Audit Report No.26 2011-12, p. 20.

(recommendation 51, 52) and Indigenous law and justice (recommendation 58).³⁸

- 4.43 The response also identified several specific examples of programs where consolidation had recently occurred:
- The Remote Jobs and Communities Program, which consolidates four previously separate programs.
 - The Indigenous Family Safety Program, which merged the Family Violence Partnership Program and the Family Violence Regional Activities Program.
 - The Family Support Program, which drew together a suite of previously separate programs under a single set of arrangements.³⁹

Approaches to funding

- 4.44 Another contributing factor identified by the ANAO to capacity constraints in Indigenous organisations was the high number of short-term and small value funding arrangements. These arrangements ‘can make it difficult for organisations to predict future funding, which has planning and resource implications’.⁴⁰
- 4.45 The ANAO recommended that the departments ‘review their current funding approaches and supporting arrangements, and where appropriate, consider other options to achieve program deliverables such as longer-term partnerships or core support’.⁴¹
- 4.46 In its written submission, the National Congress of Australia’s First Peoples told the Committee that the difficulties associated with ‘short and piecemeal funding arrangements’ for programs and services had been raised as a concern by many of its member organisations. The Congress endorsed the Auditor-General’s findings on this matter, and noted that its Policy Platform advocates:
- long-term funding arrangements which provide greater certainty for Aboriginal community organisations; and
 - funding which provides community control of what and how services and infrastructure are provided.⁴²
- 4.47 At a public hearing, FaHCSIA provided a brief overview of its implementation of this recommendation, telling the Committee:

38 FaHCSIA, *Submission 8*, p. 3.

39 FaHCSIA, *Submission 8*, pp. 3–4.

40 ANAO Audit Report No.26 2011–12, p. 20.

41 ANAO Audit Report No.26 2011–12, pp. 64–65.

42 National Congress of Australia’s First Peoples, *Submission 3*, p. 4.

We do this writ small as well as writ large. Yesterday the Prime Minister announced \$14 million in funding for Reconciliation Australia over four years. It is essentially a partnership, and it is core funding. So that is the writ small, if you like. Writ large, we are locking in long-term funding through national partnerships. The National Partnership Agreement on Remote Indigenous Housing is ten years. The Stronger Futures national partnership will be ten years. We are looking to, in a sense, lock in a joint approach with the states and the Commonwealth.⁴³

- 4.48 The three departments provided more detailed information about their implementation of the ANAO's recommendation in response to written questions from the Committee.
- 4.49 DoHA advised that its Office for Aboriginal and Torres Strait Islander Health (OATSIH) had introduced multi-year funding agreements, 'reducing the reporting burden and red tape associated with funds administration'. The OATSIH multi-year funding agreements were now available to around 80 per cent of OATSIH-funded organisations, and the agreement was being used to administer funding from other areas of DoHA. The department was also introducing a 'multi-year, multi-program' funding agreement to 'allow all organisations to operate under one agreement for all their funding'.⁴⁴
- 4.50 In their joint response, FaHCSIA and DEEWR pointed to the incoming Remote Jobs and Communities Program, a \$1.5 billion program which will provide employment and participation services and community development in remote Australia. The program will provide five-year funding agreements, with options for further extensions of up to five years, giving 'greater certainty to providers and communities'. There would be a single service provider offering a 'single, local point of contact' in each of 59 remote regions.⁴⁵ At a public hearing, DEEWR explained that the five year agreements were:
- ... longer that we have traditionally offered for employment services funding in DEEWR, and we often have project based funding. So there would be an assurance to those organisations that, so long as they are achieving outcomes and working with their communities and job seekers and towards the goals of the

43 Mr Dillon, *Committee Hansard*, Canberra, 6 February 2013, p. 4.

44 DoHA, *Submission 7*, p. [1].

45 FaHCSIA and DEEWR, *Submission 8*, pp. 1-2.

Remote Jobs in Communities Program, they have a sustainable period in which to operate.⁴⁶

- 4.51 Other examples referred to by FaHCSIA and DEEWR of initiatives in which longer term funding or core support have been used included:
- the ten year investment timeframe for the Stronger futures in the Northern Territory package, in which agencies were ‘looking to develop multi-year funding agreements with providers’;
 - providing core support, for example, through the National Partnership Agreement on Early Childhood Education administered by DEEWR;
 - a proposed new national school funding model under the National Plan for School Improvement, which would ‘support improvements in policy areas that are critical to the closing the gap reform agenda such as lifting teacher quality and providing more information for parents’; and
 - funding to the Supply Nation program to link Indigenous businesses with major contract opportunities.⁴⁷

Reporting and compliance burdens

- 4.52 The ANAO found that the extent of administration associated with individual funding agreements can create a high administration load for organisations, limiting their ability to use existing capacity to actually deliver programs and services.⁴⁸ It concluded that while more comprehensive reporting was often used by departments as a mitigation strategy to address internal capacity risks, the ability of an organisation to comply with reporting requirements was itself a common risk. Noting that such mitigation strategies can divert resources away from service delivery, the ANAO recommended that departments:

... take a more strategic approach to risk management that gives greater consideration to the broader operating environment, and balances compliance requirements with the actual level of risk and the achievement of outcomes.⁴⁹

- 4.53 The National Congress of Australia’s First Peoples endorsed the ANAO’s findings, noting that they reflected the experience of its member

46 Ms Marsha Milliken, Acting Deputy Secretary, Early Childhood, Working Age and Indigenous Participation, DEEWR, *Committee Hansard*, Canberra, 13 March 2013, p. 3.

47 FaHCSIA and DEEWR, *Submission 8*, pp. 2–3.

48 ANAO Audit Report No.26 2011–12, p. 20.

49 ANAO Audit Report No.26 2011–12, pp. 83–84.

organisations and that its Policy Platform states that it 'will work with the Government to cut red tape from all stages of funding processes'.⁵⁰

- 4.54 At one of the Committee's public hearings, DEEWR, in relation to the Remote Jobs and Communities Program, acknowledged that 'we need to look at the obligations that government imposes on providers and the proportionality of reporting and the way we manage risk'. It said that it was 'conscious of and thinking about' how it could do better in this area.⁵¹
- 4.55 In its joint written response to questions from the Committee, FaHCSIA said it had been implementing broad administrative reforms to 'streamline administrative requirements for grant programs and ensure that only essential information is collected'. These reforms included introducing (in 2009):
- a Common Business Model for Grants Management, which applied a risk-based approach to grant administration resulting in a reduced level of monitoring, reporting and acquittal requirements for most funding recipients as a result of their 'low' risk ratings; and
 - Standard Terms and Conditions for Funding Agreements.⁵²
- 4.56 FaHCSIA informed the Committee that it had been 'proactive in recent years' strengthening its Program Risk Framework. This included in 2011 bringing together previously separate processes, tools and templates into a single Service Delivery Monitoring Tool to give performance and risk ratings to all of FaHCSIA's funded activities. Additionally, in 2012, a department-wide Risk Maturity Strategy was implemented to 'further embed a culture of risk management across all areas of the Department's operations'.⁵³

Current capacity building initiatives

- 4.57 Through public hearings and responses to questions on notice, the three departments informed the Committee of a range of initiatives currently underway to help build the internal capacity of Indigenous organisations to delivery services and programs.
- 4.58 At the Committee's hearing on 6 February 2013, FaHCSIA said that capacity building had been built into the program design of the incoming Remote Communities and Jobs Program. This was in the form of around

50 National Congress of Australia's First Peoples, *Submission 3*, p. 5.

51 Ms Wood, *Committee Hansard*, Canberra, 13 March 2013, p. 3.

52 FaHCSIA and DEEWR, *Submission 8*, p. 2. See also FaHCSIA's response to the ANAO's Recommendation No.1, which summarises these two reforms, in ANAO Audit Report No.26 2011-12, pp. 65-66.

53 FaHCSIA and DEEWR, *Submission 8*, p. 2.

\$10 million being allocated to build capacity within organisations during the lead up to the rollout, in addition to ‘local knowledge’ being one of the criteria used to select providers:

... we have deliberately built into the planning for this program a brokering role as we go forward in selecting so that existing job service providers or disability employment service providers might form a partnership with a local organisation so that we get the best combination of both local knowledge, Indigenous sensitivity, if you like, and capacity to deliver for what is a mainstream program.⁵⁴

- 4.59 During the Committee’s second public hearing on 13 March 2013, DEEWR provided more information on capacity building activities built into the Remote Communities and Jobs Program. Capacity strengthening began at the application and expression of interest phases, and would extend throughout the transition in to the new program on 1 July 2013:

During the assessment phase we have got the capacity to work with applicant organisations to develop their capability and once we have successful organisations identify, through our experience of those organisations and also through the selection process, areas where they need capacity development and to work with them in the lead up to 1 July, not only training them in the nuts and bolts of the program itself – because it is a new program – but also about their governance, their frameworks and how they will operate as an organisation. We are also adopting a more supportive approach in agreement management with the organisations from 1 July. So we will be working with them to develop their organisations as well as to develop the delivery of the program.⁵⁵

- 4.60 Many of the capacity-building activities identified by the three departments focused on the internal corporate governance of Indigenous organisations. For example, at a public hearing DoHA told the Committee that it was funding the National Aboriginal Community Controlled Health Organisation to develop a program of capacity building and governance improvement in its sector, of which a key feature was the establishment of a sector governance network. The network’s focus was on ‘how to improve the capacity within their own organisations and on the development and promotion of national principles and guidelines for

54 Mr Dillon, *Committee Hansard*, Canberra, 6 February 2013, p. 10.

55 Ms Milliken, *Committee Hansard*, Canberra, 13 March 2013, p. 3.

good governance training and development' and providing expert support services for members:

They have established a governance member support function in each of the affiliates – they are staff who are dedicated to actually providing advice to the Aboriginal community controlled organisations in each location so that they can be supported through business advice and general advice from the national body and from each state affiliate.⁵⁶

- 4.61 FaHCSIA told the Committee that its Office of the Register of Indigenous Corporations provided a 'whole suite' of assistance to organisations incorporated under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006*. This included training programs, assistance to directors of organisations, provision of materials to boards, and one-on-one work with particular organisations on a risk basis.⁵⁷ Internal FaHCSIA policy was to encourage Indigenous organisations to incorporate under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* or the *Corporations Act 2001*, if they were not already so incorporated.⁵⁸
- 4.62 FaHCSIA also said that it was encouraging its major service providers to consider the appointment of independent directors in order for them to be able to contribute their specific governance skills to the directorship of Indigenous organisations.⁵⁹
- 4.63 Another initiative being led by FaHCSIA was the development of the COAG National Indigenous Governance and Leadership Framework. The Framework would be a guide for the Federal and state and territory governments in implementing the National Indigenous Reform Agreement 'Governance and Leadership' Building Block, and 'increase the focus on governance and leadership' for policies and programs across the other Building Blocks. It would aim to 'facilitate, support and enable good leadership and governance practice in Aboriginal and Torres Strait Islander peoples, organisations and communities' by building on existing good practice.⁶⁰
- 4.64 Other governance-related issues were also raised in the submissions received from the National Congress of Australia's First Peoples and the Aboriginal and Torres Strait Islander Social Justice Commissioner, primarily relating to participation of Indigenous people and their

56 Ms Palmer, *Committee Hansard*, Canberra, 13 March 2013, p. 5. Further information on this initiative was provided in DoHA, *Submission 7*, p. [2].

57 Mr Dillon, *Committee Hansard*, Canberra, 13 March 2013, p. 5.

58 FaHCSIA and DEEWR, *Submission 8*, p. 5.

59 Mr Dillon, *Committee Hansard*, Canberra, 13 March 2013, p. 6.

60 FaHCSIA, *Submission 8*, p. 6.

representatives in government decision-making.⁶¹ These issues were discussed in Chapter 2 on Australian Government Coordination for Indigenous Programs.

4.65 Other internal capacity building activities identified by the three departments in evidence provided to the Committee included:

- Providing assistance to Indigenous organisations for effective business planning and budgeting (FaHCSIA).⁶²
- Consultations with the Australian Charities and Not-for-Profits Commissions to ensure its activities are aligned with the Government's broader not-for-profit reform agenda, including contributing to a range of working groups examining regulation, streamlining grant arrangements and performance reporting (FaHCSIA).⁶³
- A Job Services Australia Indigenous mentoring pilot, in which providers are funded to deliver culturally appropriate mentoring support for Indigenous workers (DEEWR).⁶⁴
- The provision of professional support to staff of early childhood services through Professional Support Coordinators and Indigenous Support Units, supporting staff to improve their qualifications, through the Budget Based Funded Quality Measure (DEEWR).⁶⁵
- The Remote Indigenous Professional Development Project, which supports the delivery of early childhood education practice for early childhood educators in remote Indigenous communities for whom English is a second or third language (DEEWR).⁶⁶
- The Establishing Quality Health Standards–Continuation measure, which 'supports eligible organisations to achieve clinical and organisational accreditation under mainstream standards relevant in the Australian healthcare environment' (DoHA).⁶⁷
- Other DoHA projects which have a capacity building component, including the Expanding Health Service Delivery Initiative in the Northern Territory.⁶⁸

61 Aboriginal and Torres Strait Islander Social Justice Commissioner, *Submission 4*; and National Congress of Australia's First Peoples *Submissions 3*.

62 FaHCSIA and DEEWR, *Submission 8*, p. 5.

63 FaHCSIA and DEEWR, *Submission 8*, pp. 5–6.

64 FaHCSIA and DEEWR, *Submission 8*, p. 4.

65 FaHCSIA and DEEWR, *Submission 8*, pp. 5–6.

66 FaHCSIA and DEEWR, *Submission 8*, pp. 5–6.

67 DoHA, *Submission 7*, p. [2].

68 DoHA, *Submission 7*, p. [2–3].

- Funding to NACCHO and its state and territory affiliates to provide support and capacity building to Indigenous health services (DoHA).⁶⁹

A whole-of-government capacity development strategy

4.66 The ANAO's audit report observed that none of the audited departments had an overarching policy which drew together their capacity development efforts or provided guidance to staff implementing the capacity development activities. Similarly, there was no overarching whole-of-government strategy for implementing capacity development. The ANAO concluded that:

... in the absence of an overall strategy, the impact of individual initiatives within programs is likely to be limited, and may lead to duplication in implementation or a piecemeal approach.⁷⁰

4.67 The ANAO recommended that FaHCSIA, through the Executive Coordination Forum on Indigenous Affairs (ECFIA), facilitate the development of a whole-of-government capacity development strategy and implementation approach. The recommendation was agreed to by FaHCSIA.⁷¹

4.68 At the public hearing on 13 March 2013, the Committee asked FaHCSIA whether a whole-of-government strategy was in place yet, noting that it had been more than 12 months since the ANAO's report had been released. FaHCSIA indicated that it had been 'instrumental' in ensuring that capacity building was an 'integral part' of major cross-agency initiatives such as Stronger Futures in the Northern Territory and the Remote Jobs and Communities Program, and that it was using ECFIA to drive such initiatives:

... there is a strong push underpinning all these major initiatives and if next year there is another major initiative, FaHCSIA will be there with our shoulder to the wheel pushing the same issue.⁷²

4.69 Asked to confirm 'yes or no' whether its ongoing work through ECFIA constituted its response to the ANAO's recommendation for a whole-of-government strategy, FaHCSIA responded affirmatively. It explained:

Is there a pamphlet out there that says: 'Strategy on capacity development'? The answer is no. Is there a strong drive across

69 DoHA, *Submission 7*, p. [3].

70 ANAO Audit Report No.26 2011-12, p. 21.

71 ANAO Audit Report No.26 2011-12, pp. 102-103.

72 Mr Dillon, *Committee Hansard*, Canberra, 13 March 2013, p. 7.

government, led by FaHCSIA, to improve the focus on capacity development? The answer is yes.⁷³

- 4.70 Despite this response, after the hearing, in response to a question on notice about the capacity development initiatives currently underway, FaHCSIA indicated that it was 'already engaged in a range of activities which will inform a whole-of government capacity building strategy'.⁷⁴
- 4.71 FaHCSIA provided more information to the Committee in its response to a question on notice about progress being made towards an overarching capacity development framework. It described how the COAG National Indigenous Governance and Leadership Framework (briefly discussed above), led by FaHCSIA, was being developed in consultation with Indigenous leaders, state and territory governments and across the Commonwealth, and was due to be considered at the next meeting of the COAG Working group for Indigenous Affairs. FaHCSIA noted that while the Framework would be based on the Service Delivery Principles of the National Indigenous Reform Agenda, it would also include two additional principles relating to capacity building and a 'strengths-based approach'. Recommendations were being developed for actions to achieve the Framework's outcomes commencing in 2013-14.⁷⁵
- 4.72 In regard to the development of a strategy to support capacity development across agencies, FaHCSIA added that a range of activities and reforms had been identified which would inform the strategy, including:
- On the ground activities, such as awareness raising and business planning guidance;
 - Structural actions, such as a modified new policy proposal template requiring capacity risks to be addressed;
 - Governance related activities, such as encouraging Indigenous organisations to incorporate under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006*;
 - Additional support to peak bodies to build the capacity of their member organisations; and
 - Sector-specific actions, for sectors such as health, education, aged care and early childhood.⁷⁶

73 Mr Dillon, *Committee Hansard*, Canberra, 13 March 2013, p. 6.

74 FaHCSIA and DEEWR, *Submission 8*, p. 4.

75 FaHCSIA, *Submission 8*, pp. 6-7.

76 FaHCSIA, *Submission 8*, p. 7.

Committee comment

- 4.73 The Committee welcomes the audit report and endorses the ANAO's findings.
- 4.74 The evidence from all participants in the Committee's review indicates that capacity development in Indigenous organisations is a critical issue for improving outcomes on the ground, particularly in remote communities. The large amount of funding, both in real terms and as a proportion of total Australian Government Indigenous Expenditure, necessitates concerted efforts to ensure that everything possible is being done to remove barriers to Indigenous organisations being as effective as they need to be in delivering services and programs.
- 4.75 It is clear that there is a lot of valuable action underway and the issue of capacity development is being taken seriously. For example, the departments demonstrated an increased awareness of the need for longer term funding partnerships with service providers and noted a range of instances in which they were being used. However, more than one year after the release of the ANAO report, the capacity development efforts by departments still appear relatively patchy and varied in their focus.
- 4.76 The Remote Jobs and Communities Program, which was noted extensively in the evidence from FaHCSIA and DEEWR, appears to be a good model for future initiatives. The program's focus on longer term partnerships associated with longer term funding, consolidation of previously separate programs, and support for the internal capacity of service provider organisations being built into the package all point to capacity building having been incorporated right throughout the initiative. However, the Committee shares the concern expressed in the ANAO's report that the good efforts being made in programs such as the Remote Jobs and Communities Program may not be repeated in other programs and may not be sustained into the future in the absence of a stronger framework to support them.

The need for a shift in focus

- 4.77 A point that was made in the audit report, and was also observed by the Committee in the evidence it received, is that the departments' activities still seem to be primarily focused on addressing internal capacity constraints within Indigenous organisations, without necessarily addressing external constraints that are within the scope of government to influence. This was evidenced in the departments' responses to questions about their capacity initiatives currently underway, which were

- overwhelmingly dominated by measures to support capacity within organisations, particularly in relation to corporate governance.
- 4.78 While support for internal capacity of organisations is important, and the departments should be commended for their efforts, an overemphasis on these factors creates a risk that agencies will not address the external drags on organisational capacity that may be within their ability to address – or worse, could even contribute to those factors. For example, the ANAO report noted that some departmental efforts to mitigate internal capacity risks, such as through increased reporting and monitoring, can actually negatively impact service provider capacity overall by diverting resources away from actual service delivery.
- 4.79 Closing the Gap is a big policy challenge, and will require risks to be taken in order to achieve results. The Commonwealth Financial Accountability Review currently underway calls for better engagement with risk in the public service, working towards a 'positive risk culture'. The Committee sympathises with the difficult position of public servants in balancing the need to ensure compliance against the burdens that some compliance activities can place on service providers. However, in the context of Indigenous service delivery, a positive risk culture means agencies (and indeed ministers and the Parliament) need to be willing to accept increased levels of risk, such as by reducing reporting requirements for Indigenous organisations, as a trade-off for greater overall outcomes.
- 4.80 Capacity *within government* was identified by non-government inquiry participants as an issue needing more attention, particularly in regards to cultural awareness. The Committee was pleased to hear that there were some initiatives within the three departments to address this issue, and suggests that efforts to improve cultural awareness and Indigenous representation in the Australian Public Service must increase and be sustained if the issues are to be overcome.
- 4.81 Many of the current capacity-building activities listed by the departments centred on the provision of training, support and advice. This approach is critical. However, the Committee notes the ANAO's warning that, while there is a place for training to help support the internal capacity of organisations, it is unlikely to be enough on its own. These type of activities do not address other internal influences on capacity such as access to infrastructure and resources.⁷⁷
- 4.82 The evidence suggests that cultural change may be needed within departments to move towards a greater focus on improving the enabling environment within which Indigenous organisations operate.

77 ANAO Audit Report No.26 2011-12, p. 98.

Demonstrating this, 'governance' was raised as a capacity issue by most inquiry participants. However, while the departments talked about providing assistance for the internal governance of organisations, the external inquiry participants had a much broader perspective, talking about reforms to the governance of the programs themselves. This suggests a shift in focus may be needed within departments.

- 4.83 At a broader level, the ANAO identified that the high number of distinct Indigenous programs and subsequent funding agreements creates administrative burdens that contribute to service provider capacity constraints. The Committee was pleased to learn that progress has been made in consolidating Indigenous programs, both in response to the *Strategic Review of Indigenous Expenditure* and separately, and compliments the departments on these reforms. The Committee encourages this type of rationalisation to continue and advocates for the overall impacts on the service delivery environment to be considered before any new separate programs are created in the future.

A whole-of-government strategy

- 4.84 At the public hearing, FaHCSIA pointed to the work of the Executive Coordination Forum on Indigenous Affairs along with some particular initiatives as evidence of its new focus on capacity; but it did not appear that the ANAO's recommendation for a whole-of-government strategy was being implemented in any explicit manner. The Committee considers that an explicit, written strategy would provide the clear and consistent guidance across departments that is needed to improve support for service provider capacity, and would be a worthwhile exercise of FaHCSIA's lead agency role. Indeed, the presence of such an explicit strategy could provide FaHCSIA with some additional leverage to drive improvements across departments, the need for which was discussed earlier in this report (see Chapter 2).
- 4.85 Interestingly, although somewhat confusing the matter, FaHCSIA's written response to questions taken on notice at the hearing implied that a written whole-of-government strategy *was* being developed, and that it would be informed by a range of activities underway and reforms that have been identified. The Committee understands that the strategy will be associated with the COAG National Indigenous Governance and Leadership Framework, which will have a strong focus on supporting capacity development. The Framework will provide FaHCSIA with an excellent opportunity to develop an explicit capacity development strategy for implementation across Commonwealth agencies.

- 4.86 Although it is unclear why the work underway towards developing a whole-of-government strategy was not able to be presented at the public hearing, the Committee is pleased to hear that work does appear to be in progress, and looks forward to seeing the outcome. To emphasise the Auditor-General's findings, the Committee suggests that it will be important for such a strategy to address not only internal capacity issues such as corporate governance, but also external influences on capacity that are within the ability of government to influence, such as reporting requirements. It is also important that the strategy address the issue of capacity within government itself.

Recommendation 5

The Committee recommends that FaHCSIA lead the development of an explicit whole-of-government strategy for capacity development in order to provide guidance across departments on the Government's role in supporting capacity development in Indigenous organisations. The strategy should take into account both internal and external influences on the capacity of organisations, and also provide guidance on building the capacity of government agencies working with Indigenous organisations.

Rob Oakeshott MP
Chair
May 2013

