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# Audit Report No. 41, 2005-06, Administration of Primary Care Funding Agreements

## Introduction

### Background

16.1 The primary care sector, comprising general practice, nursing, allied health, community health and community pharmacy, is the most commonly accessed part of the health system.

16.2 Accessing primary care typically encompasses a visit by a person to their general practitioner to seek treatment for illness. However, primary care services are also provided by other medical professionals working outside of general practice, such as immunisations provided within a community health setting.

16.3 It is through the primary care sector, predominantly general practice, that Australians access a range of diagnostic, pharmaceutical and acute care services. Acute care involves the provision of medical and other services in hospitals as well as specialist services in the community.

16.4 A strong primary care system is a key to providing quality care in the treatment of illness and in the prevention of health problems through early intervention. Research has shown that:

> …countries with well-developed systems of primary care, such as Australia, achieve better health outcomes at less cost. Conversely, countries with very weak primary care infrastructures have poorer performance in major aspects of health.[1]

16.5 The nature of primary care has been changing as governments and providers in developed countries respond to demographic and morbidity changes, particularly due to the impact of ageing populations. There has also been a major focus on controlling costs while continuing to meet increasing societal needs and expectations.

16.6 In February 2006, the Council of Australian Governments announced a $1.1 billion funding package aimed at achieving better health for all Australians, through better health promotion, prevention and early intervention strategies.

16.7 The Department of Health and Ageing (Health) has a central role in supporting changes in primary care in Australia. Health's Portfolio *Outcome 4: Primary Care* works towards strengthening the primary care sector to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. Outcome 4 is managed within the Department by the Primary Care Division (PCD or the Division). In 2005-06, the Australian Government's total administered items appropriation for the primary care outcome was $816.9 million, with $30.4 million appropriated for departmental items.

16.8 Health does not provide primary care services directly to health consumers, instead it contributes to strengthening of the sector through funding primary care programmes. Health distributes funding via agreements with a range of organisations, such as universities, other education providers, private sector organisations and representative bodies. As at 30 June 2005, PCD and Health's State and Territory Offices (STOs) were administering approximately $895 million in primary care funding via 389 funding agreements. These agreements ranged in size from $1800 to $150 million and in duration from five weeks to around six years.

16.9 This financing supplemented other primary care funding, such as $10.6 billion in funding for Medicare services and $6.3 billion in funding for the Pharmaceutical Benefits Scheme.

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1 Department of Health and Ageing, 2005, *General Practice in Australia: 2004*, Canberra, p.4.

16.10 PCD funds a variety of primary care activities under 26 programmes and initiatives. A large number of these programmes involve developmental work, such as establishing after hours medical services, trialling of new approaches to treat chronic disease through general practice, and building primary care research capacity. These types of activities require agreements with sufficient flexibility while providing adequate levels of control to ensure that the Department 'gets what it pays for'.

## Audit objectives

16.11 The focus of the audit was on administration of primary care funding agreements by the Primary Care Division and Health's State and Territory Offices. The ANAO's assessment was based on the following criteria:

- are funding agreements sound? (containing appropriate terms and conditions and clear performance expectations);
- are administration processes sound? (including assessing compliance and monitoring the performance of funded organisations); and
- are programme officers adequately supported? (including guidance, training and access to expertise).[2]

16.12 The audit report was tabled on 24 May 2006.

## Overall audit opinion

16.13 The aim of the Government's primary care funding is to ensure all Australians have access to high quality, well-integrated and cost-effective primary care. The manner in which Health administers primary care funding is an important factor in realising this aim.

16.14 The ANAO found that Health was well advanced in establishing guidance and training to equip its officers with the skills and knowledge needed to effectively administer funding agreements. Health was working to strengthen its approaches, with the development of an information system to support day-to-day agreement administration. This system was to complement existing contract registers that Health uses to monitor agreement activity and

2 ANAO Audit Report no. 41, 2005-06, *Administration of Primary Care Funding Agreements*, Commonwealth of Australia, May 2006, p. 29.

to inform internal/external reporting. Aspects of Health's day-to-day administration of primary care agreements, such as payments, were also generally consistent with agreement requirements.

16.15 Notwithstanding, there were aspects of primary care agreement administration that required strengthening in order for Health to demonstrate that it 'gets what it pays for' and to improve the efficiency of administration.

16.16 The ANAO found that the specification of performance expectations in primary care funding agreements was insufficient, with limited use of clearly expressed and appropriate activity plans, standards or targets against which performance can be objectively assessed. There were also weaknesses in the documentation of decisions, particularly relating to the assessment of reports, which affected Health's capacity to demonstrate effective performance management.

16.17 The absence of a programme management information system, problems surrounding the management and use of contract registers, and unclear arrangements for the sharing of agreement administration between PCD and STOs had also led to less efficient administration.

### ANAO recommendations

16.18 The ANAO made the following three recommendations:

Table 16.1 ANAO recommendations, Audit Report No. 41, 2005-06

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| 1. | The ANAO recommends that, in order to define performance expectations and inform monitoring, Health clarify specifications and use appropriate timelines and targets in its primary care funding agreements.<br>*Health's response: Agreed* |
| 2. | The ANAO recommends that Health clarify reporting obligations to ensure it receives the necessary information to assess performance and acquit funding under primary care agreements.<br>*Health's response: Agreed* |
| 3. | The ANAO recommends that, to demonstrate sound decision-making, Health document the key steps in its assessment and acceptance of reports from organisations funded under primary care agreements.<br>*Health's response: Agreed* |

## The Committee's review

16.19 The Committee held a public hearing to examine the audit report on Wednesday 11 October 2006. Witnesses representing Health and the ANAO appeared at the hearing.

16.20 The Committee took evidence on the following issues:

- funding agreements;
- monitoring of expenditure; and
- performance support for administrators.

16.21 The Committee also discussed Health's progress towards implementing the ANAO's recommendations, including its implementation timeframe. Health informed the Committee that the implementation of the three recommendations was well under way, and was expected to be completed within a year.[3]

## Funding agreements

16.22 In its administration of primary health care services to the community, Health uses standard funding agreements which are developed by Health's Legal Services Branch. The standard agreements include appropriate general terms and conditions, such as clauses linking payments to performance. Where programme officers make changes to the general terms and conditions, these are based on legal advice from the Legal Services Branch.

16.23 The ANAO considered that while the general terms and conditions in standard funding agreements were appropriate, the performance specifications in schedules developed by programme areas were not always clear. This is partly explained by the difficulty in establishing specifications for developmental work and the need for agreements with sufficient flexibility. Notwithstanding, clear standards and targets provide guidance to programme officers and funded organisations and reduce the risk of disputes.

16.24 The ANAO also found that agreements commonly contained ambiguous activity descriptions, insufficient budget detail, and unclear reporting obligations. Furthermore, timelines for funded primary care activities were not aligned to reporting periods and the use of targets to define performance expectations was limited. These issues lessen the usefulness of funding agreements to programme officers and funded organisations when determining satisfactory performance. The ANAO noted that Health did not ensure that all primary care funding agreements were signed before the project

3 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 9.

period and/or the activity had begun. Delays in the signing of agreements increase the risk of disputes as the terms, conditions and performance expectations may not be agreed to before a project begins.

16.25 When questioned on this by the Committee, Health responded:

> …there is very regular contact between the project managers and the people who are delivering the services or receiving the funding. ..Quite often some of the contracts…are quite innovative approaches for Australia and it is a little bit difficult to identify exactly what the deliverables are going to be until after the contract has been in place for some time. While I think it is fair to say—obviously it is the case—that the performance information was not clearly stated, there certainly was information in there. It just probably could have been clearer, and that is something that we are making sure will be fixed in the future. [4]

### Recommendation 28

**The Committee recommends that as far as possible, Health attempt to have as many contracts signed as possible prior to a project beginning and funding being dispersed. Where contracts are not signed beforehand, the Committee recommends that elements which are easily defined be entered into an interim contractual measure.**

16.26 At the public hearing, the Committee questioned Health about the ANAO's finding that in 54 percent of the funding agreements reviewed the description of the activities was not clearly stated. The Committee was concerned that this figure was high, and sought explanation from Health as to the reasons behind it occurring, as well as progress made towards improving performance.

16.27 Health advised the Committee that a key challenge it faces is:

> …getting the balance right between rigorous accountability, which is obviously always a prime consideration, and flexibility especially in an area like primary care, which, by its

4 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3-4.

> very nature, can be very hard to encapsulate, describe and conceptualise in really rigorous, concrete terms.[5]

16.28 It went on to explain that:

> …some of the contracts we have in place support developmental or innovative activity, and often at the commencement of contracts, which might be providing services in hard-to-reach areas, it is quite difficult to project or predict exactly what the deliverables are expected to be.[6]

16.29 With respect to improving performance in this area, Health advised the Committee that it now has:

> …processes in place to fix the situation and make sure that the project managers certainly contemplate, to their best endeavours, all options in trying to get better specifications, timelines and relevant performance information as part of contracts. This comes down to difficulty in predictability about where things are going in some of these services.[7]

16.30 Notwithstanding the complexity of the primary care programs for which Health administers the funding agreements, the Committee considered that there was capacity for the Department to build into the funding agreements performance indicators relating to the intended outcomes of the projects. Health agreed with the Committee's sentiment, however, maintained that:

> Classically, we can buy either inputs, outputs or outcomes. In an ideal world, we would buy outcomes… the further we go towards outcomes, the less rigorous we can be but the greater the opportunity for innovation.[8]

16.31 The Committee also considered the types of different funding agreements which are being administered by Health to gain an understanding of the scale of its work. Health advised that there were between forty and fifty initiatives being undertaken.[9]

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5 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 1.
6 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 2.
7 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3.
8 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3.
9 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 3.

## Monitoring

16.32 The Committee was concerned about the ANAO's finding that in 66 percent of funding agreements reviewed, the budget did not provide the detail necessary to effectively monitor expenditure. The ANAO found that agreements that contained insufficient detail on how funding was to be spent often contained a total budget amount without identifying expenditure items. When budgets were itemised, programme officers generally used generic terms to describe expenditure items. The audit report stated that programme officers generally considered the budgets in agreements to be clear, although it noted in some cases they needed to specify more detail in reporting templates. Some programme officers considered that familiarity with the agreement helped them better understand the budget.

16.33 Health explained that the issue of inadequately detailed budgets arose as a variation of the same problem it encountered when trying to adequately describe activities within funding agreements. To address such concerns, Health is now:

> …being clearer in our requirements of these organisations that receive funding to work with us to develop a very robust project plan with the level of financial detail upfront.[10]

16.34 In terms of project delivery, the Committee is aware that flexibility is required within contracts and funded organisations so as to provide maximum achievement. The Committee asked Health whether it had been determined in situations where desired outcomes were not met, whether it was due to staff within individual projects. Health felt that this was difficult to measure and gave an example that:

> In rural Australia I think we probably all know examples of small rural communities that have flourished when there has been a natural leader or some champion for a cause come in and, on the flip side, they have withered a little bit when that sort of person leaves. We do see that the strength of management and the strength of leadership in these organisations are very closely linked to the results that they achieve…. We do make sure that…we fund the ADGP, for example, to do a lot of leadership and management training to make sure that there is a strong and vital leadership group coming through the network.[11]

10 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 4.

11 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 4.

16.35 The Committee also inquired about Health's measurement of outcomes in relation to the Divisions of General Practice Programme within Health. There were 119 Divisions of General Practice nationally at the time of the audit, encompassing about 94 percent of GPs. Their aim is to "improve and address access, integration, chronic disease management, workforce issues and consumer needs".[12] Their funding also allows for programmes such as allied health programmes and immunisation to be implemented. Funding is also allocated for leadership and management training to ensure future success.

16.36 Health responded that:

> …we are developing what will end up being a really quite sophisticated performance management framework for divisions. That will hopefully mean that we can shift our focus more towards what they are achieving rather than what they are doing. That is a multi-year project to move towards that and business as usual has to go on in the meantime.[13]

## Support for administrators

16.37 The audit report found that there was scope to increase guidance for programme officers in order to address issues relating to the lack of clarity and comprehensiveness of performance specifications in agreements. Further, the lack of programme-specific guidance for some programmes, to supplement departmental and divisional guidance, had led to inconsistencies in the delivery of national programmes, such as different criteria or methods used to assess reports. The ANAO found however that:

> Health has established a process to identify the development needs of staff. In response to needs identified through this process, the Department has established a standard suite of training courses designed to equip staff with an understanding of their rights and obligations when dealing with parties to funding agreements. Participation in courses by programme officers with responsibility for managing

12 ANAO Audit Report no 41, Administration of Primary Care Funding Agreements, Commonwealth of Australia, May 2006, p. 13.

13 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 5.

> primary care agreements is, however, patchy with a number of officers not having attended training for many years.[14]

16.38 Health added to the ANAO's finding by noting that:

> …we have made training mandatory for all staff in the division. We have already given a presentation that everyone has attended and between 60 and 70 percent of all staff who look after contracts have attended the courses that have been developed and tailored in light of the ANAO report. So we are making that available, and we expect 100 percent attendance by the end of the month.[15]

16.39 The Committee sought assurances from Health that it was taking steps to ensure staff receive appropriate performance support. Health gave evidence that since the tabling of audit report, the Department has introduced a number of changes to its processes. For example:

> One of the resources that has come out since the ANAO report has been a program management guideline, so that everyone in the department—both in our state offices and in our central office—who have anything to do with managing general practice divisions have a guideline so that they can implement, set the criteria and set the performance indicators in a nationally consistent manner. That is something we worked with the divisions network to develop.[16]

16.40 In relation to contract management, Health advised that when a contract arrives and is given to a delegate, there is a small unit that exists which is:

> …staffed by a couple of experts in procurement and contract management, just to make sure that they are working with the contract managers to make sure things are ridgy-didge.[17]

16.41 Finally, the ANAO also noted that:

> Health is implementing a programme management information system to provide greater assistance to program officers in the day-to-day administration of funding agreements. Health plans to implement the proposed system

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14 ANAO Audit Report no 41, Administration of Primary Care Funding Agreements, Commonwealth of Australia, May 2006, para 5.58.

15 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 6.

16 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 6.

17 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 7.

by July 2009. In the interim, programme officers continue to use ad hoc, stand-alone approaches, such as spreadsheets and to-do lists. The use of these systems is less efficient and costs more. The risk that a contractual obligation is overlooked, particularly where a programme officer is absent or where there is a new programme officer, is also increased. Health envisages that the proposed system will reduce these risks.[18]

## Committee comment

16.42 The Committee is encouraged by Health's positive attitude and demonstrated commitment to improving its funding agreements. For example, Health advised that it began implementing changes upon receipt of the draft Audit Report, prior to tabling of the final report.[19] In addition, it has initiated a multi-year project to develop a 'sophisticated performance management system'.[20]

16.43 The ANAO advised the Committee that it considered Health to have responded appropriately to the matters of good administration and governance raised by the audit.[21]

16.44 The Department of Health and Ageing is diligent in regularly advising the Committee of its actions in response to recommendations of the Auditor-General.[22] The Committee looks forward to being kept informed in writing of the Department's progress in implementing the recommendations of both the Committee and of the Auditor-General.

18 ANAO Audit Report no 41, Administration of Primary Care Funding Agreements, Commonwealth of Australia, May 2006, p. 94.

19 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p.9.

20 Department of Health and Ageing, *Transcript of Evidence*, 11 October, 2006, p. 5.

21 Australian National Audit Office, *Transcript of Evidence*, 11 October, 2006, p.9.

22 Pursuant to Finance Circular 1999/02 – Follow up of Auditor-General matters.