Closing the gap
clearinghouse

Funding Indigenous organisations: improving governance performance through innovations in public finance management in remote Australia

Contents

This paper was commissioned by the Closing the Gap Clearinghouse Board. The views expressed in this paper are those of the authors and may not reflect the views of the Australian Institute of Health and Welfare, the Australian Institute of Family Studies, or Australian Governments.

Summary

What we know

- How public sector agencies fund Indigenous organisations, known internationally as funding 'modalities' (see *Terminology* for definition), can enhance or corrode the capabilities of Indigenous people to govern themselves.

- The modality used to fund Indigenous organisations is only one factor involved in the governance and service delivery performance of an Indigenous organisation. Other factors involved include skills, capabilities, material resources, legislative provisions and the complexity of their operating environment.

- The impact that funding modalities have on the governance and performance of Indigenous organisations is under-researched in Australia compared with generically similar international modalities.

- The situation for remote Indigenous organisations differs in 3 ways from the international case studies examined in this paper. In Australia: (1) performance indicators are imposed, rather than negotiated; (2) few existing public funding modalities reward performance or provide incentives; and (3) funding arrangements do not generally require receiving organisations to be accountable to their constituents.

- Although the rules of public finance management are uniform across the Australian Public Service, Indigenous authorities and organisations are funded through a wide variety of modalities. These range from completely untied general-purpose grants with minimal or no reporting requirements, to tightly prescribed specific-purpose grants with cumbersome reporting requirements.

- During the past decade, the 3 lead Commonwealth agencies demonstrated the diverse ways in which financing guidelines can be interpreted. These included contested contractualism; a multitude of small special-purpose grants, and decentralised funding of community-controlled health organisations.

- Strong path dependencies and interests exist in some parts the system, influencing how public sector agencies fund Indigenous organisations and constrain innovation.

- Governments tend to over-emphasise 'risk and uncertainty' and respond by measures that reduce local discretion, centralising decision-making authority and accountability.

- Due in part to the application of contestability principles, public finances in remote Indigenous contexts have generally become fragmented and unstable, leading at times to considerable duplication and administrative burden. This can divert limited resources and talents available to Indigenous organisations away from delivery of outcomes to their constituency.

- There are examples of remote Indigenous organisations that have been funded through a block grant system (see *Terminology* for definition) for their core functions. There is potential to expand this approach and trial other innovations that have been tested internationally. This paper considers the circumstances under which block funding could be adapted to the unique context of remote Indigenous communities in Australia.

- While it is not possible to claim that block funding will necessarily result in organisations becoming more capable and accountable, the international experience is that the block-funding modality can result in heightened public engagement in local politics, including downward accountability, as occurs in democracies generally.

- Block funding is no panacea. Given the diversity of context, capabilities and the difficulties of backing innovative grant systems, it is reasonable to expect some failure. But seeing such contexts only through the lens of risk, deficit and chronic governance failure undermines the prospect of local capability or accountability developing.

What works

- Public financing of Indigenous organisations has been successful when the organising node is the *organisation*, rather than the *program*. Funding can be organised either around the totality of the organisation's functions, or restricted to its core functions.

- Stable, ongoing funding (generally over a 3–5 year timeline) can lead to improved governance capabilities.

- Governance capabilities can be enhanced when discretion is devolved locally, including the powers to budget, plan and make operational decisions, allowing the organisation to respond to locally identified priorities. This is particularly effective when the devolved functions are within the general capability of the funded organisation, the rules have been negotiated, and the decisions can be contested by the people they serve.

- Where block funding has occurred, organisational-level accountability arrangements have been in place. This includes stipulation of minimum governance standards being in place (for example, budget, plans, key staff) before qualifying for the block grant.

- Supporting culturally and contextually appropriate governing structures is likely to have a positive effect on governance capabilities.

- Indigenous organisations have tended to benefit from general-purpose and more expansive and flexible funding arrangements in cases where they have a recognisable jurisdictional boundary or a well-defined service delivery catchment area.

- Legislating the performance-management framework and reporting requirement into clearly defined jurisdictions can both increase local autonomy and decrease the duplication and quantity of reporting requirements.

- Funding arrangements based on citizen entitlements for social security or health care have been successfully adapted to provide core governance funding, partly because they can limit departmental discretion to impose conditions.

- When different departments are able to pool their funding, even on a modest scale, there can be a reduction in the transaction and reporting costs for Indigenous organisations and government departments. Departmental discretion is however still limited by the different ways that the funds have been appropriated by Parliament.

- Single parliamentary appropriations to clearly defined jurisdictions can increase local autonomy and decrease the volume and duplication of reporting requirements.

What doesn't work

- Imposing financing frameworks and performance measures that have not been jointly negotiated.

- Expecting capacity to develop and performance to improve in the absence of government support.

- Cobbling together funding for core governance from multiple special-purpose grants.

- Building performance frameworks around outcome and impact measures that are beyond the influence or capability of the Indigenous organisation.

What we don't know

- Because block funding has not been explicitly trialled in remote Indigenous contexts, evaluations and other evidence are lacking. More research and evaluation is required to explore how different block funding modalities affect capabilities and performance.

- It is not yet known if there is government and stakeholder support to trial block funding. It should at least be practically possible to operate a combination of an untied general-purpose grant—that funds the core mandate of the organisation—and tied special-purpose grants to fund additional outcomes desired by governments and agreed upon by local organisations. As governance capacity is demonstrated, it should be possible to roll more of the special-purpose grants into the general-purpose grant, thereby increasing the size of the pool of block funding and decreasing the number of grants and associated administrative burden.

- Little has been documented about the realpolitik of actual expenditure behaviours and about the conditions under which innovation occurs in Indigenous organisations.

- Earlier attempts at finance reform have generally led to increased fragmentation and reporting. Indigenous participation is likely to be conditional on the reforms leading to longer-term commitments to stable and predictable funding, reduced and more flexible funding conditions, increased local discretion, reduced reporting requirements, and negotiated agreements on outcomes.

- It is unclear if Indigenous organisations would be in favour of enhanced performance-management systems and incentive-based funding, though anecdotal evidence suggests that they could be if the systems are built around their actual practice (rather than around the grant) and they can better demonstrate effectiveness to constituents and stakeholders.

- Further work is required to develop new accountability frameworks that satisfy 3 different sets of accountability requirements:
  – upward to the funding agency
  – downward to the organisation's constituents and/or clients
  – operationally to the Indigenous organisation's capabilities.

- These frameworks need to be developed around the organisation or project, rather than a multitude of different departmental grants.

Part I: Introduction

Preamble

The poor development standards experienced by Indigenous Australians, especially in places remote from urban areas, are regularly characterised in public and academic discourse as a crisis (Brigg 2007; FaHCSIA 2007), with calls for 'new approaches, new thinking and new commitment' (Walker et al. 2012:15). This paper focuses on the *modalities* used to manage the conversion of public financing of Indigenous organisations into activities designed to impact on these standards. By *modalities* we mean the policies and instruments that structure and govern how funding is delivered and aligned with government priorities, including administrative, financing and accountability mechanisms.

In this review, block funding was identified for its potential to reform the public finance system to create enabling conditions for enhanced Indigenous governance. Building a devolved accountability framework around the organisation, rather than the centralised grant program, is a sensible alternative to multiple grants and ineffective cycles of grant risk management and attendant accountability measures. As block funding has never been explicitly trialled in Australia, there is a lack of evaluations and other evidence for its efficacy in remote Indigenous contexts. In comparison, the international development literature documents a wealth of experience of the success and shortcoming of generically similar financing modalities. The paper therefore considers the circumstances under which block funding could be usefully adapted to the unique context of remote Indigenous communities in Australia.

This review examines the literature and evidence from two principal sources. First and foremost, lessons are distilled and the context defined from a wide array of experience over the past two decades across remote Australia. This is then compared with the evidence from similar contexts abroad; that is, countries and regions that are remote from centres of economic wealth and political power, where populations are generally relatively isolated, scattered and highly diverse. These are often poorly served by administrative and service delivery arrangements due to the impost of great distances and high costs. In these settings, whether abroad or in Australia, local authorities are often referred to as being 'fragile' and 'weak' (Alda et al. 2011). Two quite different approaches to handling public finances can be found in these contexts:

- One is to centralise responsibilities to govern public finances and to institute a host of compliance and reporting obligations on local authorities to manage perceived risks to fiduciary standards. This approach can be an effective way to respond to crises in the short term, but over time, this response tends to corrode local capability and introduce perverse incentives to 'break the rules' and 'game the system' to respond to local needs and demands.

- A second, contending approach has developed, particularly in the past decade. This approach shifts responsibility in the direction of local authorities and organisations for a specific range of services and functions. It also negotiates mutually acceptable agreements about the conditions under which public monies can be used and how performance will be jointly assessed.

This paper synthesises Australian and international experiences, then suggests avenues for future engagement, including both new experimentation and upscaling of already promising precedents.

Purpose, scope and method

Purpose

This review explains the context and past experience of public finance reform and its effects on governance in remote Indigenous communities. Evidence is drawn from Australian and international development contexts to show that the terms and conditions under which public finance is directed into local authorities and community-controlled organisations can powerfully affect the orientation and capabilities people develop to govern themselves. The aim is to explore ways in which productive arrangements might be pursed in funding Indigenous organisations.

The review is particularly concerned with exploring the feasibility of block funding arrangements for organisations' core functions: that is, the channelling of funds to an organisation to enable it to fulfil its core functions under a single reporting framework. Core functions here include both 'governance' responsibilities as an entity (in relation to a governing board, a constituency or membership, to represent particular population interests or meet particular mandates) as well as 'service' responsibilities (in relation to particular activities, services or outcomes). Block funding typically occurs via an untied general-purpose grant; some types of special-purpose grants can also support both governance and service responsibilities. Block funding was first mooted for Indigenous organisations by the Royal Commission into Aboriginal Deaths in Custody in 1991 (RCADIC 1991:4:27.3:rec. 190). Since then, many reports have called for more flexible funding arrangements, pooled on the basis of outcomes or devolved to the community level. For examples, see Coordinator General for Remote Indigenous Services: Six monthly report: April 2013 to October 2013 (CGRIS 2013); the evaluations of the COAG Trial Sites (Morgan Disney et al. 2006); the Implementation Review of Shared Responsibility Agreements (Morgan Disney 2007); the Australian National Audit Office performance audit (ANAO 2007); *Beyond humbug* (Dillon & Westbury 2007); the Northern Territory Emergency Response Review (Yu et al. 2008); the Blueprint for Reform of Australian Government Administration (Commonwealth of Australia 2010); the Strategic Review of Indigenous Expenditure (DFD 2010); the Australian Council for International Development (ACFID 2011); the Evaluation of the Groote Eylandt and Bickerton Island Regional Partnership Agreement (Tempo Strategies 2012); and most recently, in the Commonwealth Financial Accountability Review (DFD 2012). While the notion of block funding continues to be proposed and debated, the idea has never been explicitly trialled (CGRIS 2009).

This paper presumes that strengthened Indigenous governance is both an end in itself (as an inherent public good), as well as a critical factor in achieving improved effective service delivery outcomes (which might also be a public good) (ATSISJC 2012). There is considerable evidence to show that Indigenous organisations are more effective in delivering services and achieving development outcomes when there is strong governance in place (Moran 2006; Hunt et al. 2008; Limerick 2009; Lowitja Institute 2010; Tsey et al. 2012; Vos et al. 2010). For information on the Native American experience, see *The Harvard Project on American Indian economic development* at <http://hpaied.org/about-hpaied/overview>. Indigenous organisations increasingly work alongside a range of providers at the frontline of service delivery, which is at the point of contact with beneficiaries. Indigenous organisations with strong governance are well placed to provide a range of services to Indigenous communities for the following reasons:

1. They have a greater claim to representativeness and therefore offer an avenue for grassroots accountability.
2. Their inclination is to offer culturally appropriate services and mechanisms for engagement.
3. They are more likely to be accessed by Indigenous people (Ivers et al.1997).
4. They provide a space for Indigenous ownership, which is increasingly acknowledged as a fundamental starting point to overcoming disadvantage.
5. They have more legitimacy to advocate and provide feedback to policymakers on behalf of their communities.
6. They are currently one of the few vehicles for a degree of self-government in the Australian context (Sullivan 2010).

These advantages, however, can be realised only when Indigenous organisations have effective governance and funding arrangements in place.

A further presumption of this paper is that there is sufficient scope for innovation within the existing architecture of the public finance management system. While this architecture has become more uniformly centralised during the past two decades, there is also considerable variation in how different government departments interpret the rules in how they actually manage public finance to Indigenous organisations.

The political economies of remote Indigenous settlements are diverse; some are located in mining enclaves of global investment, and others are almost entirely reliant on public finances. But all are significantly affected by the way in which public finances are transferred, spent and accounted for, regardless of whether they are transferred directly to individuals or to local organisations. Considerable resources are channelled on an individual basis according to people's entitlements as citizens. The balance of public finance is spent directly by government authorities, contracted agents and funded organisations.

In these contexts, as observed elsewhere in respect of aid-dependent jurisdictions (Craig & Porter 2006; Whitfield & Therkildsen 2011), the careers of leaders, whether elected or appointed, are largely determined by their political capabilities: how they are able to marshal and maintain networks of trust and loyalty, secure public finances, and service the interests of important political constituencies. Constituents expect their leaders to deliver on promises; but this legitimate democratic demand is often in tension with efforts by higher levels of government authority to shape outcomes. When the imperatives that governments respond to are at odds with local political imperatives, higher-level authorities typically put controls on local political leaders through administrative arrangements that insist on adoption of pre-defined norms and practices.

Shifts away from devolution to local organisations, towards more centralised and contracted arrangements can compound the problems the changes intend to resolve. When organisations and leaders become wholly dependent on external financing that is focused on achieving administratively defined outputs, leaders begin to relate to their constituents as 'subjects' of administration, rather than as political 'citizens' with rights and entitlements. The political accountability of leaders to their constituents is weakened in favour of an administrative accountability 'upwards' to the higher authority, as defined by the terms of contract. When non-government organisations (NGOs) and private providers enter into government contracts as quasi-representative agents, with a privileged position of articulating citizen voices, but with principal accountability to government via narrow administrative outputs, they can dilute the accountability of state agencies to their citizens (Craig & Porter 2006). As described in Part III, the international experience has been that public finance arrangements can act as a catalyst for these political capabilities, leading to improved accountabilities to constituents and also to improvements in administrative and technical performance (Robalino et al. 2001; Olsen 2007).

Successive governments have tended to treat devolution to Indigenous organisations as high risk, which is evident in the use of short-term grants for relatively small portions of funding that are often accompanied by onerous reporting requirements. According to the Australian National Audit Office (ANAO) in its 2012 audit of the sector (ANAO 2012a), approaches to risk management have tended to focus on perceived risks that are *internal* to the organisation, rather than focusing on risks that are *external* to the organisation, including how funding and reporting is administered. The centralisation of Indigenous Affairs from the late 1990s, entrenched by successive Commonwealth governments, has led to an increase in government programs and a corresponding disengagement of Indigenous people from their local governance. During the past few years, the Australian Government has moved to reverse this trend:

> Spending more money on Indigenous Australians is not a sign of success and is not something that should be celebrated for its own sake. … There is also a need to engage Indigenous people more in solving their own problems. We have to stop pretending that a government policy or programme on its own can overcome Indigenous disadvantage (Australian Government 2014:4).

The purpose of the research is to explore how the funding modalities to Indigenous organisations and authorities can enable improved governance performance and service delivery outcomes. The following 3 research questions are explored:

1. What have been the consequences of recent trends in public finance management reform for the governance capabilities of Indigenous organisations?

2. Is there a relationship between different funding modalities and the governance performance of Indigenous organisations?

3. What are the characteristics of the different funding modalities that encourage improved governance performance?

Structure, method and limitations

Part I of the review first considers the policy environment for public finance management arrangements for Indigenous governance.

Part II explores 10 case studies of different funding modalities in the Australian context. The case studies were chosen for their attempts to create conditions similar to block funding mechanisms, whether explicitly, implicitly or as a workaround. These case studies were analysed for 3 reasons. Firstly, they illustrate the complexity and fragmentation currently experienced in the sector. Secondly, they permit a number of lessons, conclusions and comparative benefits to be drawn for future trials of block funding. Finally, they provide a deep context from which to consider the application and adaptation of the international development evidence of public finance management reform to remote Indigenous contexts in Australia.

Throughout parts I and II, legislation, policy and program documentation is reviewed, including relevant evaluations. Funding structures are examined, including eligibility and accreditation, the amount of funding and the allocation formula, and issues to do with accountability, key performance indicators, reporting requirements and administrative loads. Finally, the case studies consider how downward accountability (that being accountability from leaders to constituents) is achieved (or not) through exploring related issues to do with good governance expectations, community participation, and factors influencing transparency. Interviews were conducted with representatives from Indigenous organisations including chief executive officers and chief financial officers, as well as government personnel involved with the associated programs.

Part III then reviews the evidence of funding modalities operating in Pakistan, Ethiopia, Uganda, Tanzania and Bangladesh; it draws out critical success factors and provides a framework for comparison with the Australian experience. When drawing on the international development literature, fragile and conflicted contexts that display some similarities to Australian Indigenous contexts have been selected because of their institutional complexity and remote or scattered populations. The key characteristics derived from the international development evidence are then compared to the Indigenous Australia context—identifying the similarities, differences and possibilities for adaptation and innovation.

Part IV then draws these learnings together in proposing an alternative approach.

Scope

The scope of this review has been limited in 4 ways.

Firstly, the review has been limited to *remote* Indigenous settlements, comprising around a quarter of the total of Australia's Indigenous people. According to the 2011 Census, around one-third of all Aboriginal and Torres Strait Islander people lived in *Major cities* (233,100 people). A further 147,700 people lived in Inner regional areas and 146,100 people in *Outer regional* areas. The remainder lived in *Remote* (51,300 people) or *Very Remote* (91,600 people) areas (ABS 2013). Here, progress towards meeting Closing the Gap targets remains slowest, and in some areas the situation is worsening (Australian Government 2014; SCRGSP 2011). Much of the study will nonetheless have relevance to urban communities; the manner in which public finance flows into peripheral

disadvantaged communities, and the effects on governance capabilities, can be found regardless of geographies and whether communities are discrete or dispersed across urban fabrics.

Secondly, the review has focused on representative Indigenous organisations incorporated for the purposes of Indigenous welfare and development, and where public funds are their primary source of income. The research has excluded those organisations that exist primarily as a vehicle for mining royalties, native title benefits, philanthropy and other forms of private sector financing. Although there are representative Indigenous governance organisations operating also at state, national and global levels, our focus has been on those organisations that are locally or regionally based. Local governments and statutory authorities have also been included where the vast majority of their constituents or governing bodies comprise Indigenous people. The review does *not* include non-Indigenous NGOs that receive public funds to deliver services in Indigenous communities. It also does *not* include Indigenous NGOs with non-elected boards who make no claim to be representative of a constituency.

Thirdly, the focus is on public finance, not the private economy. The paper considers public financing from all levels of Australian government—Commonwealth, state and territory, and local. At a Commonwealth level, the research focuses on the 3 former departments with prime responsibility for Indigenous funding: Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); Department of Education, Employment, and Workplace Relations (DEEWR); and the Office for Aboriginal and Torres Strait Islander Health within the Department of Health and Ageing (DoHA). The Indigenous portfolios within FaHCSIA and DEEWR have subsequently moved to the Department of Prime Minister and Cabinet (Indigenous Affairs), while most components of OATSIH have remained within the Department of Health. At the state and territory level, the research has included the Queensland and the Northern Territory governments.

Fourthly, whole-of-government reforms have not been included for the practical reason that those implemented to date have not included significant reform to public financing models or arrangements. There have been innovative examples in Australia of whole-of-government coordination, through the Council of Australian Government (COAG) trials, Regional Partnership Agreements (for example, Groote Eylandt), and more recently the Remote Service Delivery trials. These trials, however, have largely proceeded in ways where the underlying structure of fractured financing arrangements through multiple programs and departments has remained unchanged. Typically these initiatives have actually led to, or at least coincided with, an increase in the number of reporting arrangements. For example, the Thamarrurr Regional Council authored a paper for discussion in 2006 reporting that while the COAG trial may have resulted in increased resources to Wadeye, 'In fact, there has been an increase in complexity for Thamarrurr, with greater administrative burden than before'. The number of government funding agreements the Council was administering reportedly increased over the trial period from 60+ to 90+ (Gray 2006:9). While efforts to coordinate government departments should be lauded, these efforts do not constitute public finance reform for the purposes of this study.

Indigenous governance and public finance management

Remote Australia and public financing

Indigenous and non-Indigenous people in remote Australia share many of the same opportunities for development, and many of the same constraints (Walker et al. 2012). The extremes of weather and climatic variability in remote Australia, coupled with scarcity of other resources, result in low and variable primary agricultural activity. There are substantial pockets of mineral resources, and their extraction creates enclaves of highly mobile and highly paid populations. Indigenous people live across a dispersed pattern of discrete settlements and outstations, as well as within regional towns with mixed populations. The towns are predominantly administrative service centres. The scattered, low-density settlement patterns mean that people in remote Australia are distant from markets and the urban centres where decisions are made that materially affect their lives. There is also a discernable inter-cultural mismatch between remote Australia and how it is interpreted through urban Australian eyes.

These features combine to produce 3 flow-on effects. Firstly, local economies perform poorly, so the wider economic multipliers of investment are limited, and the funding and regulatory decisions made by governments have a significant impact on economic livelihoods. Secondly, low population densities and mobile populations, combined with great distances to urban centres, create deficits in how people are represented politically, how services are administered, and how people access their due entitlements as citizens. Finally, people in remote Australia have developed particular kinds of social relationships and innovative ways of living in challenging environments and exploiting opportunities.

The economic landscape of remote Indigenous Australia is also peculiar in that public finance constitutes the backbone of the economy in these regions, including personalised welfare and entitlement transfers, and spending through Indigenous organisations, governments, NGOs and private providers. Australia-wide, the Commonwealth's total expenditure on its Indigenous-specific programs was estimated to be $3.5 billion in 2009 (DFD 2010), of which around $3.3 billion was administered by 3 former departments: FaHCSIA, DEEWR and the DoHA (ANAO 2012a). Two years later, the Productivity Commission (SCRGSP 2012) then calculated $5.4 billion in Indigenous-specific programs across the Commonwealth and state and territory governments. When mainstream services such as education, health, policing and corrections were included, the Productivity Commission estimated $25.4 billion in total expenditure, which was more than twice the per capita spend for non-Indigenous Australians. Although it stopped short of calculating expenditure by remoteness, the Productivity Commission attributed a third of the 'additional cost of providing services' to location and services being more targeted (SCRGSP 2012:2).

The scope of the current study has been limited to public finances to Indigenous organisations, but own-source income has permitted some Indigenous groups considerable autonomy in local governance, beyond government grants. According to the Office of the Registrar of Indigenous Corporations (ORIC 2013:4), the 20 highest-income Indigenous organisations received about the same amount of revenue from self-generated income as from government grants. Some Indigenous local governments have statutory powers to raise 'rate equivalents on public housing; service charges on government agency occupiers of community land; and per capita fees [poll taxes] as an alternative to property-based rates' (Limerick et al. 2012:78). There have long been examples of Indigenous organisations and trusts that have flourished under funding from mining royalties and benefits, some with no government funding (RCADIC 1991:4:27.3.14-16). Under a Regional Partnership Agreement on Groote Eylandt, for example, the Anindilyakwa Land Council has contributed substantial royalty income to services and infrastructure, including supporting services delivered through the East Arnhem Shire Council. These examples are exceptional and further research is required to understand how these organisations perform in the absence of government-driven performance-management frameworks.

Trends in management of public finances in remote Indigenous Australia

All systems of government involve ongoing political contests about 2 things. First, what is the best way to assign responsibilities, powers and resources to different levels of territorial jurisdiction? Second, what is the best mix of public and private sector responsibilities to efficiently and effectively convert these resources into services and associated results? Since the 1980s, the balance of power has shifted markedly between Commonwealth, state or territory, and local authorities, and between public sector and market factors. For example, the proportion of tied specific-purpose payments to untied general-purpose grants from the Commonwealth to the states doubled from around 25% to more than 50% from 1983 to 2007, although it subsequently reduced to 40% with the advent of GST from the year 2000 (Bennett & Webb 2008).These changes largely echo trends worldwide in the guise of the 'new public management', a sprawling set of reforms that today is associated with the rise in executive power, centralisation of political and administrative authority, systemic fragmentation in government, and intractable problems of accountability (Walker et al. 2012). The impact of these trends on remote Indigenous Australia manifests in 6 distinct but related ways.

1. Administrative and fiscal fragmentation: New public management reforms have led to an increase in the number of small-scale, limited duration and narrowly targeted grants. A 2012 audit by the ANAO (2012a:32) on *Capacity development for Indigenous services delivery* underscored the sheer number of small, short-term grants awarded to Indigenous organisations. The 3 largest Commonwealth Government departments administered more than 2,000 funding agreements to more than 900 Indigenous organisations through 2010–11. The average duration of these grants was 15 months (ANAO 2012a). The 820 Indigenous organisations funded under just one grant system were required to submit 20,671 performance, financial and acquittal reports during this period (ANAO 2012a). FaHCSIA funded the largest number of organisations, and more than half of these grants were less than $55,000 in value, and many were for less than $1,000.

2. Policy pulsing and changes to the rules: The fragmentation evident in the high number of relatively small, short duration grants has been exacerbated by rapid changes in policies and programs. Policy 'pulsing' is a major challenge for departmental officers, program managers and Indigenous organisations alike. Programs and funding mechanisms are often not given sufficient time to be embedded before they are changed. In some cases they are only partially implemented or are superseded. There are examples where policies and particularly funding modalities have been quite promising, and even successful, but by the time they reach the stage of evaluation they've already been defunded or significantly restructured (Morgan Disney 2007).

3. Unsustainable, and unmet, administrative burdens: The combination of administrative and fiscal fragmentation and notions of accountability stemming from 'new public management' reforms has resulted in Indigenous organisations becoming subject to often unsustainable administrative requirements and burdens. This problem is fuelled by the volume of grants that are often small and short-term in nature. Organisations are therefore caught in a continuous cycle of applying for, and reporting against, grants that have often been provided for very specific purposes with only limited allowances for the administrative requirements that accompany them. This approach to funding perpetuates a sense of funding insecurity, often resulting in organisations committing significant human resources to playing the 'funding game'. *The overburden report* (Dwyer et al. 2009), also noted the underutilisation of data by the departments that collate them; and importantly, the overemphasis on corporate aspects of reporting while neglecting to collate evidence regarding meaningful and substantive change or outcomes.

4. Fragmented service delivery, duplications and gaps: Notwithstanding the commitment to whole-of-government coordination to adopt place-based approaches to planning and service delivery, the political and interdepartmental barriers to pooling resources and coordinating governments and agencies have proven difficult to overcome. This has resulted in problems with implementation and inefficiencies as highlighted by a Department of Finance and Deregulation (DFD 2010:13) review:

> Program management and service delivery remains fragmented rather than coordinated, with weak linkages even within agencies, let alone across them. The multitude of separate disconnected programs runs contrary to the need for flexibility of service delivery, most obviously in remote locations, and creates a surfeit of unnecessary red tape … Significant efficiencies could be gained by pooling expertise and coordinating efforts in areas where individual agencies are currently 'doing their own thing'.

The National Commission of Audit (NCoA 2014:173) more recently reiterated this problem, identifying 'significant scope to improve the effectiveness of Indigenous expenditure'—with an emphasis on the need to significantly improve government coordination. The Audit found (NCoA 2014:174):

> There is currently a substantial degree of overlap and duplication between the Commonwealth and States in Indigenous affairs as well as excessively bureaucratic processes and administrative arrangements… There are now too many disparate and fragmented Commonwealth Indigenous programmes. There is too much duplication and a creeping overlap of responsibilities between the Commonwealth and the States. There is also a critical lack of robust evidence and evaluation about the effectiveness of Indigenous programmes at all levels of government.

5. Declining autonomy, capability and political accountability: The decline in autonomy is directly linked to the manner in which funding is provided and the level of prescription attached to it. This is a longstanding problem highlighted in 1990 by the House of Representatives Standing Committee on Aboriginal Affairs (HRSCAA 1990:92):

> The problems associated with funding represent real restrictions on the autonomy of Aboriginal communities. This lack of autonomy is reinforced by the fact that almost all funding to Aboriginal communities comes in the form of grants for specific projects or functions, although some may receive block grants or untied local government funding. … it is difficult for communities to control and set priorities for the overall funding coming into their communities as they are derived from too many sources and tied to predetermined priorities that may not necessarily reflect a community's requirements.

Twenty years later, the Department of Finance and Deregulation (DFD 2010:13) underscored the critical connections between public finance management and Indigenous governance capability when it called for governments to develop:

> decision-making processes that effectively balance the variety of Indigenous governance styles with governments' responsibilities for properly managing public funds.

Governance approaches should be designed to 'empower Indigenous people and communities, including equipping them with relevant skills, so that they can progressively take meaningful control of their futures'. This stands in contrast to the policies of competitive tendering and private sector contracting. Tendering processes, along with the influx of non-Indigenous NGOs and private sector agencies into remote settlements, have contributed to the challenges experienced in Indigenous governance. The competition for limited government funding has undermined the fiscal sustainability of Indigenous organisations.

6. Responses preoccupied with mitigating risks: When Indigenous organisations are perceived as being high risk, departments respond by tightening controls and imposing disciplinary and surveillance requirements, including shortening the duration, narrowing the output and deliverables, and reducing the amount of each grant. According to Dwyer et al. (in reference to this problem in the Aboriginal Community Controlled Health Organisations (ACCHO) sector) these responses can be 'aligned more closely with public/political perceptions of the sector (and perhaps perceptions of Indigenous people themselves) than with overall performance of the sector and actual utility of the data' (Dwyer et al. 2009:46, 55). *The overburden report* noted how ACCHOs were 'subjected to higher levels of scrutiny, possibly related to the relative lack of trust and credibility extended to them by funders and others' (Dwyer et al. 2009:46), an observation also made by the Victorian Government's Department of Human Services (Lavoie et al. 2010).

As noted by the Auditor General's report (ANAO 2012a), the administrative burden imposed by the high number of short-term and small-value grants, and the insecurity of ongoing funding, adversely impacted on the capability of Indigenous organisations. Risk management has become a perverse cycle of risk perception, risk mitigation strategies and then consequent escalation in risk:

> while more comprehensive reporting was often a mitigation strategy, the ability of an organisation to comply with reporting requirements was also a common risk identified by these departments. Reporting-related issues were the cause of non-compliance in 98 per cent of funding agreement breaches, which indicates that the existing mitigation strategies are not generally reducing reporting risk, potentially because of the high volume of reporting required. (ANAO 2012a:22)

The overarching politics of the Indigenous sector exacerbates this cycle of risk, as identified in *The overburden report*: 'political sensitivity provides a way of getting attention for their members' needs, but tends to lead to the kind of over-administration documented' (Dwyer et al. 2009:55).

Part II: Case studies from Indigenous Australia

Grants for core governance functions

This set of case studies involves discretionary grants that support the core governance function of the organisation. Often, the core governance function of the grant is not explicitly stated nor intentionally designed, and it occurs indirectly. The grant is to various degrees untied, so it can be allocated to activities at the discretion of the local authority. It typically operates in unison with other more conditional special-purpose grants. When based on the principle of revenue sharing between higher and lower levels of government, there is no reporting requirement against the grant. The organisation is instead required to report its performance—not against the grant but rather as an entity in its entirety—as prescribed by its overarching legislation. Block funding grants also tend to be multi-year and some use accreditation rather than application processes.

General-purpose grants to Indigenous local government authorities

Commonwealth funding of local governments is modelled on the inter-governmental fiscal relations the Commonwealth maintains with the states and territories. Funding is provided through a general-purpose revenue-sharing modality under which untied grants are made to local governments, without conditions or reporting attached to the grant, relying instead on legislative frameworks and other requirements that prescribe the authority in its entirety. The Commonwealth Grants Commission and the Local Government Grants Commission in each state and territory handle funding allocations, based on a fiscal equalisation formula that explicitly includes the presence of Indigenous people in local government areas (Sanders 1995a). For more information see: <http://www.regional.gov.au/local/assistance/fags-state-summaries-qld.aspx>. Whether mainstream local governments then apply these funds to the benefit of the Indigenous residents has long been a cause of controversy (RCADIC 1991:4, rec. 200).

Since the mid-1980s, a number of Indigenous Councils—mostly in Queensland and the Northern Territory—have been recognised as local governments for the purposes of receiving these grants, known as Financial Assistance Grants (FAG), under the *Local Government (Financial Assistance) Act 1995* (Cwlth). The FAG is completely untied, giving maximum flexibility to local governments to respond to variable local priorities. There is no mechanism under the Act to seek and gather information on how local governments are spending their FAG. The Commonwealth Grants Commission review of FAG reported to Treasury in December 2013, but this is not yet publicly available. For more information see: <https://www.cgc.gov.au/index.php?option=com_content&view=article&id=152:2013-inquiry-into-improving-the-impact-of-fags-on-local-government-financial-sustainability&catid=39&Itemid=160>. A submission to the review by the then Department of Regional Australia, Local Government, Arts and Sport (DRALGAS 2013) which administers the FAG, raised the potential of such a performance framework, but cautioned against the loss of autonomy this would entail. As otherwise noted by Sanders, placing conditions on revenue-sharing arrangements might have implications to the way that the states receive untied funding through the same mechanism (Sanders 1995a).

The closure of ATSIC from 2004 signalled a move towards mainstreaming and a greater reliance on specific-purpose payments within the Australian federal system of government. Nonetheless, there are mainstream local governments in Australia that are predominantly Indigenous by virtue of the constituency and, therefore, their elected representatives. These Indigenous local government authorities constitute the only examples in Australia of general-purpose grants to Indigenous organisations. It is difficult, however, to ascertain the impacts of these grants on governance or service delivery, as they represent only a small percentage of the council budget. Among the Indigenous shire councils in Queensland, for example, the FAG constitutes from 1% to 9% of total council income, depending on the length of assessable roads within their jurisdictions (Deloitte 2012).

Municipal funding of Indigenous shire councils in Queensland

In Queensland, 16 predominantly Indigenous councils have the status of local government authorities under the *Local Government Act 2009* (Qld). Most of the Indigenous shires cover a single community of between 250 and 3,000 residents; they emerged from the former missions and government settlements, and then community councils. Two of these councils, the Northern Peninsula Area Regional Council and the Torres Strait Island Regional Council, are regional councils that amalgamated a number of community councils in 2008. Since the late 1980s, they have been trustees of the land within their jurisdiction (former government reserves), although some of this land (outside the residential areas) has subsequently been handed back to traditional owners through Aboriginal Land Trusts and Registered Native Title Bodies Corporate.

As they operate on unrateable communal title land with limited local economies, these Indigenous shires rely heavily on grant funding from the Queensland Government for municipal services. The 4 principal grants sources are:

* *State Government Financial Aid Program (SGFA)*, as described further below. ($28.6 million in 2013–14 for the 16 Indigenous councils in Queensland). For more information see: <http://www.dlg.qld.gov.au/grants-and-subsidies-programs/state-government-financial-aid.html>.

* *Revenue Replacement Program (RRP)* to compensate affected councils for their loss of income as a result of closure of their canteens under mandated Alcohol Management Plans ($3.5 million in 2013–14). For more information see: <http://www.dlg.qld.gov.au/grants-and-subsidies-programs/revenue-replacement-program.html>.

* *Indigenous Economic Development Grant (IEDG)* to compensate councils for the loss of income resulting from the closure of CDEP, and to encourage employment within councils in municipal service delivery ($1.44 million in 2013–14). For more information see: <http://www.dlg.qld.gov.au/grants-and-subsidies-programs/Indigenous-economic-development-grant.html>.

* *Financial Assistance Grant (FAG)*, which is provided to all other local governments in Australia ($22.5 million to Queensland Indigenous Councils in 2013–14). For more information see: <http://www.regional.gov.au/local/assistance/fags-state-summaries-qld.aspx>.

The reporting against these grants is minimal, as they operate through a devolved accountability framework wrapped around the organisation. The SGFA requires a copy of the council's adopted budget and a statement that expenditure was acquitted. (Before 2009, there was no requirement for the SGFA to be acquitted.) In addition, the IEDG requires reporting of jobs secured. No reporting is required for the FAG. Rather, councils are required to report on the entirety of their operations, as set out by the *Local Government Act 2009 (Queensland)*. The requirements are extensive, including an annual report, audited statements, asset register, a 5-year corporate plan that incorporates community engagement, a long-term asset management plan, a long-term financial forecast, an annual budget including revenue statement, and an annual operational plan. Policies are also required in the areas of debt, investment, revenue and internal audit.

The SGFA contributes to the cost of delivering municipal services, in recognition of councils' inability to raise their own income through rates. Introduced in 1984, the SGFA stands out for its longevity as a perpetual grant. Limerick et al. (2012:75) attributed the gradual increase in capacity in Indigenous local governments in Queensland to the certainty of operational funding over 2 decades from the SGFA: 'While the available SGFA funding has often been assessed as inadequate by past reviews, its recurrent nature has at least allowed for long-term planning by the council recipients and recent increases are helping to address the shortfall'.

A review by Deloitte (2008) found that councils were tending to spend the SGFA on services that went beyond normal definitions of municipal services, including housing, aged care, child care, and unprofitable council enterprises (for example, community store). It also found the liquidity ratios were lower in comparison to benchmark mainstream local government authorities; that is, revenue levels assets were generally insufficient for their expenditure liabilities. The review attributed this to a combination of insufficient funding, inefficient financial management practices, difficulty in recruiting and retaining remote area staff, and lack of own-source

income. It identified the need for improved financial management practices. Notwithstanding the need for further improvements, several studies have attested to the increase in governance capability of these councils (Moran 2006; Limerick 2009).

Council elections are run by the Queensland Electoral Commission every 4 years and voting is compulsory. All elections were contested, with an average ratio of candidates nominating to those elected in 2012 being 5:2. The average voter turnout across the 16 Indigenous councils was 71%, slightly less than the state average of 76%, but consistent with similarly remote local government authorities (compiled from statistical returns, ECQ 2012).

The SGFA is untied, but it is calculated on the basis of standard municipal services, including water, sewerage, solid waste, roads, drainage, parks, gardens, sporting facilities, but also environmental health, community safety, natural environmental management and administration. The exact formula is not publicly available, but it is calculated against the following parameters:

1. identifying the recurrent expenditure needed to provide municipal services, based on actual costs for water and sewerage, and by using the Local Government Grants Commission formula for the FAG for the remainder

2. subtracting own-source revenue raised by each Indigenous local government as largely raised through levies, fees and charges

3. subtracting other municipal-related grants income, including the separately provided FAG.

A problem with the formula (item 2 above) is that it effectively creates disincentives for councils to raise income through municipal charges or to secure other grants. As part of its broader agenda towards fiscal austerity, economic incentives and greater contestability, the Queensland Government reformed the SGFA in 2013. It dropped the total funding pool from $33.1 million in 2011–12 to $28.6 in 2013–14, a reduction of $4.5 million. This equated to a cut of 13% spread equally across all councils. Not surprisingly, the reaction from Indigenous local government authorities was negative. For more information see: <http://www.news.com.au/national-news/queensland/Indigenous-councils-hit-with-ultimatum-to-collect-charges-or-lose-funding/story-fnii5v6w-1226653325171>.

The $4.5 million reduction comprised $1.5 million in savings as an austerity cut; $1.5 million for a competitive grant (Business Incentive Scheme) to improve the profitability and introduce new council-owned enterprises; and $1.5 million for a performance-based grant (Service Delivery Fund) for reducing operational costs and raising own-source income (a community levy and municipal charges), including business and economic development initiatives. For more information see: <http://www.dsdip.qld.gov.au/information-for-local-governments/service-delivery-fund-sdf.html>.

Reducing the funding pool and then reassigning part of the reduction as a performance incentive was initially seen by councils as a funding cut. Even the highest-performing councils in Queensland received less funding than before the reforms. Nonetheless, all councils applied for the 2013–14 round of the new performance-based Service Delivery Fund. This required the completion of a grant application, where councils reported retrospectively against the performance criteria. All councils received funding, but those who performed better against the performance criteria received a higher allocation.

Primary health care funding to Aboriginal Community Controlled Health Organisations

Aboriginal Community Controlled Health Organisations (ACCHOs) emerged in the 1970s as a result of underservicing by mainstream health services. The estimated 150 community-controlled health organisations in Australia (Korff 2012) provide a significant proportion of primary health care services to Indigenous Australians (Adams 2009). Adams (2009) has claimed that ACCHOs provide a majority of primary health care services to the Indigenous population, but this figure is contested due to a lack of conclusive data. Others sources give a range of 30–60% (NHHRC 2009). While ACCHOs range in size and purpose, some have grown into multi-million dollar

operations (Dwyer et al. 2009). Although ACCHOs receive funding from a number of sources, including state and territory governments, most of them also receive a primary health care base (PHC Base) grant, referred to here as core funding, administered through the Commonwealth Department of Health's Indigenous and Rural Health Division (IRHD), (formerly the Office for Aboriginal and Torres Strait Islander Health (OATSIH) within the Department of Health and Ageing [DoHA]).

OATSIH provided around $300 million in 2011–12 through PHC-Base, comprising 55% of the total OATSIH funding to ACCHOs. While this funding is still technically provided as a special-purpose grant, the services provided are broadly defined and the organisation has considerable discretion in allocating these funds according to their core governance and organisational priorities. The funding allows ACCHOs to function as primary health care providers—including clinic services, population health (for example, immunisation, health promotion), sexual health and facilitating patient access—and to encourage accreditation. The certainty and flexibility of this funding allows ACCHOs to fund core critical staff (offering continuity) and covers the central expenses of administration and governance. It provides organisations with a buffer against delays in receiving other grants, and the vagaries of whether they will be approved. The move to core funding was initially implemented in 1996, when responsibility for Indigenous health was moved from ATSIC to the Commonwealth department for health.

Through the 2000s, OATSIH funding to ACCHOs attracted increasing criticism from the sector because the grants were on an annual basis, the reporting was onerous, and there was ongoing uncertainty of funding. Dissatisfaction across the sector culminated in *The overburden report* (Dwyer et al. 2009). The response from OATSIH was to introduce a 'singular head funding agreement' in 2011 to consolidate the 'numerous separate agreements with the Department'. The duration of the agreements also moved to 3-year contracts. The new agreement 'set out the common terms and conditions for project funding provided to the ACCHOs' (DoHA 2012). Under this agreement OATSIH provides the PHC-Base together with a range of special-purpose grants that fall under 6 other program areas including: child and maternal health project; substance use project; social and emotional wellbeing project; closing the gap on chronic disease; remote services project (NT); and workforce. In practice, these contracts have schedules attached that often retain different conditions and reporting requirements, due largely to the manner in which funds are appropriated by Parliament (Dwyer 2013). According to Dwyer, there is nonetheless more flexibility through these arrangements in terms of funding allocation and tailoring services to meet community needs at the local ACCHO level. Some organisations funded through the OATSIH header agreement are also funded by other divisions within the department under different funding arrangements.

It is important to note that debates surrounding the level of funding allocated to the sector generally are ongoing—with strong arguments for a greater proportion of health spending to be allocated to ACCHOs. A recent report published by the national peak organisation emphasised funding concerns in its key findings (Alford 2014:7):

> Funding for ACCHS [Aboriginal Community Controlled Health Services] services is unrelated to population size or need, is not indexed for inflation or service demand and is not distributed equitably within and between the States and Territories.

OATSIH commissioned a review in 2013 into its PHC-Base allocation because it was recognised that there was limited transparency around the allocation formula (KPMG 2012). Consultations for this review identified several favourable characteristics of the model, including predictable funding amounts and flexibility in the use of funds. The desirable characteristics of a future funding model were identified as being: flexible use of funds; capturing unique provider characteristics; capturing unique population characteristics; rewarding good performance; accounting for reporting costs; maintaining access to Medicare; and maintaining advantages within the current funding model. Stage 1 of the review is nearing completion. For more information see: <https://www.health.gov.au/internet/main/publishing.nsf/Content/oatsih-primary-funding-review>.

The PHC-Base core funding has long been accompanied by a number of 'whole-of-organisation' performance-management frameworks that go beyond the remit of the grant. The Service Development and

Reporting Framework (SDRF) was introduced from 2004 to 2008. It was essentially 'a 12-month negotiated Action Plan outlining the proposed utilisation of funds provided' (OATSIH 2008: Appendix A, and Atkinson Kerr and Associates 2005) that was reported against every 6 months. Developed in consultation with the ACCHO umbrella body, the National Aboriginal Community Controlled Health Organisation (NACCHO), it was designed to standardise the reporting requirements (beyond accounting for expenditure) of organisations funded by OATSIH. Some effort was made to negotiate with other funders, particularly the states, to recognise the SDRF for the purpose of reporting in the interests of streamlining requirements and avoiding duplication, but only the Government of New South Wales was supportive of using the SDRF for reporting.

The SDRF was subsequently superseded by the Action Plan under the head funding agreement. The requirements for the plan are extensive, and include strategic plans for service delivery, governance, stakeholder management and community involvement. The plan allows the ACCHO to set their timelines and performance measures, subject to approval by IRHD. Detailed budgets are also required, for approval before funding release. The Review of Reporting Requirements for OATSIH Funded Organisations in September 2008 led to the introduction of the web-based reporting tools with an aim to developing a single streamlined reporting system. Despite IRHD only funding part of the organisation, the funding agreement stipulates that 'all income is to be included in the budget' with OATSIH funds to be 'easily identifiable'. For more information see: <http://www.health.gov.au/internet/publications/publishing.nsf/Content/oatsih_funding-agreement-book~program-activity-management~budget>. The organisation is required to report against negotiated performance indicators (IRHD 2014), their service delivery annually via the Online Service Report function and to submit organisation data against the national key performance indicators (AIHW 2013). Financial reports for the purposes of acquittal are required annually in a manner that enables 'all income and expenditure related to all the program measures to be identified separately in the accounts'. For more information see: <http://www.health.gov.au/internet/publications/publishing.nsf/Content/oatsih_funding-agreement-book~reporting~oatsih-reporting-framework>.

ACCHOs are incorporated through a variety of Commonwealth and state-based legislation, with around half incorporated under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (Cwlth) (CATSI Act), which is administered by the Office of the Registrar of Indigenous Corporations (ORIC). Under this legislation, ACCHOs are required to operate according to a rule book, to maintain a register of members, and to submit a range of annual reports, including audited financial reports, and a director's report on their internal governance. In addition, as providers of health services, ACCHOs are also subject to voluntary accreditation(s).

In 2008, OATSIH commissioned a sector-wide review which found 'support within the sector for the concept of accreditation' with voluntary accreditation already well under way (CRCAH 2008:5). However, the review also found a complex overlay of different accreditation regimes already in place with 'their own assessment procedures and timelines with scant regard given to administrative impact or implications one regime may have on another' (CRCAH 2008:5–6). For the 4 years from mid-2011 to mid-2015, $35 million was allocated under the Establishment of Quality Health Standards Continuation (EQHS-C) measure to support organisations in achieving accreditation 'under mainstream standards relevant in the Australian healthcare environment' (DoH 2013). The EQHS-C is seeking to achieve 100% clinical accreditation by the Royal Australian College of General Practitioners and at least 80% organisational accreditation (DoH 2013). With significant input from stakeholders, including the work of the Quality Improvement Council and representative bodies, OATSIH has developed the *OATSIH accreditation manual: a handbook for Aboriginal and Torres Strait Islander community controlled health organisations* that sought to improve the clarity, access, relevance and expectations around accreditation. While the manual specifically states that 'not meeting accreditation standards will not affect your OATSIH funding' (OATSIH 2010:56), there are several financial incentives, including eligibility for various other Commonwealth sources of funding and payments (OATSIH 2010). (Payments requiring Royal Australian College of General Practitioners accreditation include Practice Incentive Payments and Service Incentive Payments as well eligibility to apply for other Commonwealth funding packages such as the Indigenous Chronic Disease Package.) Accreditation is through the Quality Improvement Council, Health and Community Services Standards, International Organization for Standardization (ISO) Quality Management Systems, or the Evaluation and Quality Improvement Program (EQuIP) Australian Council on Healthcare Standards (ACHS).

New operational principles and standard operating procedures were scheduled to be implemented within the department in July 2014, towards a more streamlined approach to action plans and reporting requirements. All organisations under the funding agreement are subject to a risk assessment. Organisations are rated against 5 categories of risk. Previously, those receiving 'high' or 'extreme' risk ratings were subject to annual assessments, while those with lower ratings were subject to assessments every 2 years. The approach also included the development of risk mitigation strategies that directly correlated with the level of reporting required. The risk management strategies also informed the level of oversight as well as direct frontline assistance to the organisation. IRHD funds peak organisations (NACCHO and the state affiliates) to fulfil a comprehensive support role, and this model is largely preferred by the sector. IRHD is moving even further towards a risk management approach to reporting. Those organisations deemed to be of low risk will be subject to less frequent reporting and may be exempt from the requirement to submit a budget for approval.

The community-controlled health-governance model is designed specifically to ensure that health services are provided in a manner that is culturally appropriate and owned and controlled by the community. The ACCHO governance model was designed to overcome the service shortfalls of mainstream health providers and their limited use by Indigenous patients. While there is a wide variance in the capabilities and organisational capacity of ACCHOs, the ACCHO model of care provides important options for Indigenous people. Indigenous clients are generally more inclined to access ACCHOs—with preference indicators including the 'considerable distances travelled to access ACCHS (Aboriginal Community Controlled Health Services), bypassing private GPs and mainstream health services on the way' and the 6.3% annual increase in demand for ACCHO services (Alford 2014:13; supported by ABS and AIHW 2003:63; Ivers et al.1997; and Vos et al. 2010:7). There is also increasing evidence of their comparative effectiveness in preventive and primary health care provision (Vos et al. 2010:52–54).

Native title representative bodies and native title service providers

Under the *Native Title Act 1993* (Cwlth), the Commonwealth Minister may invite eligible bodies to apply for recognition as the representative body for native title for a geographical area. If approved, it becomes eligible for block funding from PM&C (formally FaHCSIA) to perform its statutory functions and exercise its powers as defined by the Act, primarily for the facilitation, agreement-making, dispute resolution and subsequent exercise of native title for and on behalf of traditional owners (*Native Title Act 1993*, Part 11, Division 3—Functions and powers of representative bodies). The Act provides for annual funding of up to 3 years. As is evident from the annual reports of Native Title Representative Bodies (NTRBs) and Native Title Service Providers (NTSPs), this core funding appears as a single line in their accounts. See for example: CYLC 2012. *Cape York Land Council Aboriginal Corporation annual report 2011–2012*, p. 21 (receiving $5,480,762 in 2012 and $4,775,300 in 2011 from FaHCSIA); QSNTS 2013. *Queensland South Native Title Services annual report 2012–2013*, p. 86 (receiving $10,768,428 in 2013 and $10,903,028 in 2012 from FaHCSIA).

NTRBs were initially representative Indigenous organisations with Indigenous members and elected boards; they are typically registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006*. When problems emerged with their governance, many NTRBs were deregistered. Native title services across much of Australia have also come to be performed by NTSPs. NTSPs make no claim to be representative Indigenous organisations: they have a professional board of non-elected board directors, and they are typically registered and limited by guarantee under the *Corporations Act 2001* (Corporations Act). Some NTSPs have been formed by native title units that broke away from their parent NTRB. The Native Title Act sets out requirements for NTRBs to be recognised, but no such requirement is necessary for NTSPs, nor is there any legislative restriction on the how many years an NTSP is recognised.

Despite the frequent use of 'representativeness' throughout the Native Title Act, the Act says little about governance structures and the possible processes to achieve this. Recognition of a NTRB is instead determined by departmental staff on the basis of its organisational capacity, and especially its financial performance and ability to exercise its prescribed powers and functions. The duration of the recognition period (from 1 to 6 years)

for a NTRB varies according to this assessment. Past problems with reporting or staff generally results in a shorter recognition period. Once granted, recognition can be withdrawn subject to the performance of the NTRB. While NTSPs have increasingly become prevalent, they are not subject to the same recognition process, and many have chosen instead to form under the Corporations Act (Deloitte Access Economics 2013). A current review of native title organisations is exploring rationalisation of NTRBs and NTSPs. For more information see: <http://www.dss.gov.au/our-responsibilities/Indigenous-australians/programs-services/native-title-organisations-review-0>.

NTRBs are expected to act only as the representative of native title holders before recognition of native title. After native title is recognised, this representative function transfers to prescribed body corporates, also known as Registered Native Title Body Corporates (RNTBCs). Unlike NTRBs, RNTBCs rely on limited and fragmented funding to meet their statutory responsibilities. This, among other limitations, undermines the ability of RNTBCs to provide the required assistance to native title holders and restricts their abilities to facilitate and support development objectives that native title holders may aspire to. One option under discussion is for the RNTBCs to contract services from NTRBs and NTSPs, which would also provide a contestable revenue source for NTRBs and NTSPs.

The Cape York Land Council received core funding of $5.4 million from the former FaHCSIA in 2012–13, which included a $0.5 million provision for support to RNTBCs. (The council allocates the funding to RNTBCs, without any need for an application. If there is an allocation formula, it is not widely known throughout the sector.) The council prepares a detailed annual project budget, and subject to approval and amendment by the department, this leads to a project funding agreement. Reporting has recently changed from quarterly to bi-annually. In addition to its own internal financial audit and annual report, the council is subject to random audits. The appointments of the chief executive officer, chief financial officer and chief legal officer are all subject to approval. Alterations to budget items can be made to within $20,000; otherwise a formal variation is required. Three quotes are required for all purchasing, and some operational requirements are prescribed: for example, public liability and indemnity insurance. The council is also required to produce an operational plan and to report against stipulated outcomes. There are no incentives for achieving native title determinations or other milestones. Within this accountability framework, the Cape York Land Council has a comparatively high degree of autonomy to perform its statutory functions.

The NTRB funding mechanism appears to have several strengths: the block funding covers the costs of core governance functions, the funding is secure and predictable, and the reporting burden is minimal. NTRBs also benefit from having a clear jurisdictional mandate for service delivery in which funding is attached. However, as is the case with many of the case studies included in this review, NTRBs are expected to provide a range of services and support functions outside their mandated area in response to community needs and demands. Work commonly undertaken includes assisting native title groups and their RNTBCs to manage native title (including developing and implementing agreements) and land management (including culture heritage, strategic planning and enterprise development). To fund this broader range of functions, NTRBs are increasingly being forced to compete for smaller, often short-term grants, imposing a significant administrative burden and subjecting them to an unstable policy environment. As NTRBs resolve outstanding claims work, their core native title funding is also likely to reduce. Consequently, NTRBs are likely to lose their funding stability and may well become subject to the same multiple grants and administrative overheads typical to many other Indigenous organisations.

Funding based on citizen entitlements

Two case studies are provided of government funding to Indigenous organisations based on citizen entitlements because of the extent to which they limit departmental discretion to impose conditions. The first of these functioned through legislated citizen entitlements to social security, through the Community Development Employment Projects (CDEP) scheme, which is in the process of being gradually disbanded. The second of these functions through citizen entitlement to health care through Medicare. Both have afforded some discretion to Indigenous organisations to fulfil their core governance functions.

Community development employment projects (CDEP) organisations

Initially piloted in 1977, CDEP was set up 'in response to the spread of Unemployment Benefit payments into remote Indigenous communities' (Sanders 1997:1). The scheme rapidly expanded in the late 1980s, and by 1995–96, it operated in 274 Indigenous communities, constituting 28,400 participants and accounting for 31% of Aboriginal and Torres Strait Islander Affairs portfolio expenditure. The program peaked at around 40,000 participants in 2004. In lieu of their welfare payments, CDEP participants were paid for 16 hours a week to do local community projects for the purposes of 'employment creation, income support and community development' (Altman & Jordan 2009:1). The 3 key stakeholders in this CDEP funding arrangement were the administrating body, the grant-recipient Indigenous organisation, and the individual CDEP participants. The administrating body was initially Department of Administrative Affairs then ATSIC—later it was managed by DEWR (and DEEWR).

In addition to receiving the unemployment benefit equivalents, participating organisations were also provided with administrative and capital funding to run CDEP projects (for example, house painting, lawn mowing and ranger programs). Altman (2007:1) argued that this essentially acted as a block grant, allowing organisations to make community development decisions locally:

> the equivalent of participants' unemployment benefits is provided as a block grant to community-controlled organisations, which apply these funds according to local aspirations.

This value of CDEP, providing labour, funding and resources to facilitate the core functions of Indigenous governance, was seldom explicitly stated. The program helped to build the capability of CDEP organisations, who then expanded their operations into other areas, some successfully tendering for competitive contracts as well as grants for service delivery (OEAIP 2009a). According to one of its architects, 'Nugget' Coombs, CDEP was 'not simply a means of providing employment as a source of a minimum cash income but a training exercise in self-management and increasing independence for the Aboriginal communities involved' (Rowse 2001:41).

CDEP struggled to simultaneously optimise its 2 objectives relating to employment outcomes and community development outcomes. From early 2005, the former Commonwealth Department of Employment and Workplace Relations (DEWR) began to narrow the CDEP focus to employment outcomes only. Regardless of its achievements in community development and governance, CDEP was judged to have failed in moving Indigenous people into real jobs. A Department of Finance and Deregulation evaluation concluded that CDEP was creating secondary labour market conditions outside the real economy:

> The fact that a CDEP provider would use local subsidised employment opportunities is logical but does not satisfy the goal of moving participants into unsubsidised employment … CDEP can best assist labour market adjustment when it is focussed on the labour market, rather than internally on supporting the local community.' (OEAIP 2009a:7).

Beginning by closing CDEP in urban areas throughout 2007, the government moved to wind down the program, transitioning people out of the scheme in remote areas. The intent of the reform was to reorientate CDEP based on an understanding that the program should be 'getting people ready for work and is not a destination in its own right' (Australian Government 2011:6).

DEWR brought to these reforms a 'competitive contractualism' that required the tendering out of conditional funding. As noted by Sanders (2007:2), this was very different from the prior 'loyalty model' where Indigenous organisations were 'funded and supported over extended periods of time because of their identification and links with the community being served'. No longer could CDEP organisations assume that it would be securely funded on an ongoing basis. The number of CDEP organisations began to decline.

A 2008 evaluation by Deloitte (2008) of the Indigenous Local Government Councils in Queensland revealed that CDEP supported their core governance and service delivery functions, accounting for, on average, one third of all council income. The study found that CDEP workers and support costs were deployed in council administration, community policing, solid waste, recreation, cultural activities, community town planning, environmental health and transport. The study noted how CDEP was being used to cross-subsidise functions normally funded

from other government agencies (Deloitte 2008). Acting on recommendations from that 2008 evaluation, the Queensland Government introduced an Indigenous Economic Development Grant (IEDG) to partially compensate councils for the loss of income resulting from the closure of CDEP (see above), and to encourage employment within councils in municipal service delivery (DLGCRR 2012).

The 2008 evaluation (Deloitte 2008) also noted problems with 'irregular or non-attendance' of CDEP participants, and a 'reluctance to effectively address poor individual performance'. Departmental officers consulted in the review also raised the importance of supervision and oversight to the success of CDEP. It is possible that the dependency on CDEP funding for core governance and service functions created a perverse incentive for organisations to 'turn a blind eye' to participants not working. CDEP funding was allocated in proportion to the number of participants, but the proportion of this funding that could be directed to support the organisation was actually maximised by the participants doing less work, thereby reducing the costs for supervision, materials, transport, etc. The less work people did (especially the most unskilled), the more money there was for the core governance and discretionary spending of the organisation.

The diversity of CDEP implementation across space and time means that the objectives were not always clear, the priorities ranged enormously across communities and consequently the data required to determine success or failure against the many varied priorities did not exist (Altman 2001). Clearly, Indigenous organisations used CDEP funds for governance purposes as an adaptive 'workaround' due to the challenge of securing core funding from other sources. Rather than operating under the radar as it did, better outcomes and relationships might have been achieved had these organisations received dedicated core funding, with a negotiated performance framework tied to performance and governance outcomes. A complementary and distinct performance framework dedicated to employment outcomes might then have operated alongside. Instead, the juxtaposition and shifting priorities between the competing community development and employment policy objectives of CDEP significantly compromised its ability to demonstrate effectiveness (OEAIP 2009a).

An interesting observation is the increased stability of funding that arose from its basis as a citizen entitlement. As funding allocations under CDEP were directly offset against citizen entitlements for social security, it provided a greater level of reliability than grants at the behest of departmental conditions and allocations. As noted by Sanders (1997:4), 'with the CDEP scheme, the element of [government] discretion in the allocation of government grants is considerably reduced, if not indeed eliminated.'

Medicare fee-for-service revenue for ACCHOs

Aboriginal Community Controlled Health Organisations (ACCHOs) are increasingly generating revenue through the Medicare Benefits Scheme (MBS) due to directions issued under section 19(2) of the *Health Insurance Act 1973* (Cwlth). Aboriginal and Torres Strait Islander community-controlled health services employ or contract registered doctors out of separately provided funding. The exemption permits these doctors to then in addition claim Medicare benefits for the services they provide. The doctor assigns the Medicare benefit to the ACCHO, with the understanding that the income derived will be used 'to improve primary health care for Aboriginal and Torres Strait Islander people' (Urbis Keys Young 2006:24). Under their head funding agreement (see Section 2.1 *Primary Health Care Funding to ACCHOs*), IRHD requires the ACCHO to quantify the MBS benefits received, and to make a statement that the funds have been used for their intended purpose. In practice this means some ACCHOs receive untied funding to permit them to achieve their core objectives and perform their governance functions.

The level of funding has increased with the introduction of MBS items specifically for Aboriginal and Torres Strait Islander people. These include health assessments for all age groups that can be provided annually, as well as items for services delivered by practice nurses and Aboriginal and Torres Strait Islander health practitioners and other allied health practitioners associated with the health assessments and chronic disease care plans. In 2006 Urbis Keys Young noted that several initiatives have been employed, including efforts to increase Aboriginal and Torres Strait Islander enrolment in Medicare—resulting in a substantial increase reported between 1997 and 2006 (QAIHC 2011:9-10: Urbis Keys Young 2006). A further recent increase in Medicare revenue for ACCHOs

has occurred through the Practice Incentive Program (PIP) payments associated with the PIP Indigenous Health Incentive including: a practice sign-on payment; patient registration payment; and outcome payments.

An important consideration is that the individual ACCHOs claiming these MBS benefits have otherwise demonstrated their governance capacity in order to receive grants from the Department of Health, which permit them to employ the doctors to provide the services. Thus this approach effectively operates informally alongside several accreditation systems, including one operated by the Royal Australian College of General Practitioners (OATSIH 2010).

Pooled funding arrangements

Pooled funding arrangements involve attempts to coordinate government spending across portfolios and jurisdictions into a combined or flexible funding pool. They are generally associated with 'whole-of-government' reforms to better streamline fragmented government service delivery.

Many evaluations have reported on the fragmented and siloed funding arrangements that constrain the ability of Indigenous organisations, service providers and governments themselves to respond to community need (CGRIS 2013). Conventional efforts to solve these issues through whole-of-government coordination have largely failed. From 2002, the COAG started trials at 8 sites. An elaborate single funding agreement was drafted for a trial site at Wadeye around an education and training strategy, but it was never signed (Morgan Disney et al. 2006). At the conclusion of the Wadeye trial, the number of separate funding agreements dealt with by the Thamarrurr Regional Council actually increased from 60 to more than 90 (Gray 2006).

From 2007 to 2013, a series of national partnership agreements set out to coordinate the combined Australian and state and territory governments around 'closing the gap' targets. Indigenous 'governance and leadership' features as one of the principal 'building blocks' of these targets, along with early childhood, schooling, health, economic participation, healthy homes and safe communities (COAG 2011). Prominent among these efforts was a 'place-based approach', principally through 29 remote service delivery (RSD) sites. Additional staff were deployed in Regional Operation Centres and local implementation plans were prepared to solicit 'community input' and coordinate government service delivery. As noted by the Coordinator General for Remote Indigenous Services:

> … agencies continued to work within their own program structures, employing (in many cases) the same top-down service delivery methodologies that the National Partnership set out to improve (CGRIS 2013:10).

A flexible funding pool was created through a special account, but funds allocation to proposals from local governance representatives was at the discretion of local officials of federal departments, rather than representative local governance. Even where governments committed in the local implementation plans to doing things differently, there remained a need to navigate complex approval processes for funding to flow, to identify 'lead agencies' and to demonstrate consistency with program guidelines that had been developed outside the framework of the RSD sites (CGRIS 2011:27). Early assessments suggest that remote service delivery sites were subject to more, rather than less, red tape as each new service brought with it more reporting requirements (ANAO 2012b:97). A review of the RSD program was completed in 2013.

The following 3 case studies attest to the challenges involved in pooled funding arrangements, including one successful, one failed and one aspirational.

Katherine West coordinated care trials

The Aboriginal and Torres Strait Islander Coordinated Care Trials (CCTs) started in 1997. A principal aim was to test alternative financing arrangements to improve the quality of health care. The 4 trial sites were located in Katherine West (Northern Territory), Tiwi Islands (Northern Territory), Perth/Bunbury (Western Australia) and Wilcannia (New South Wales) (KPMG 2001). A key purpose of the CCTs was to align funding with community needs and improve accountability for service delivery. Regional Aboriginal health boards were established to act as funds managers and providers of health services to the trial populations: they were made up primarily of elected Indigenous people from the local communities (Robinson et al. 2003). The approach was based on the assumption that improved coordination (including the reduction of administrative burdens) and enhanced community control and participation would lead to better health outcomes (Robinson et al. 2003).
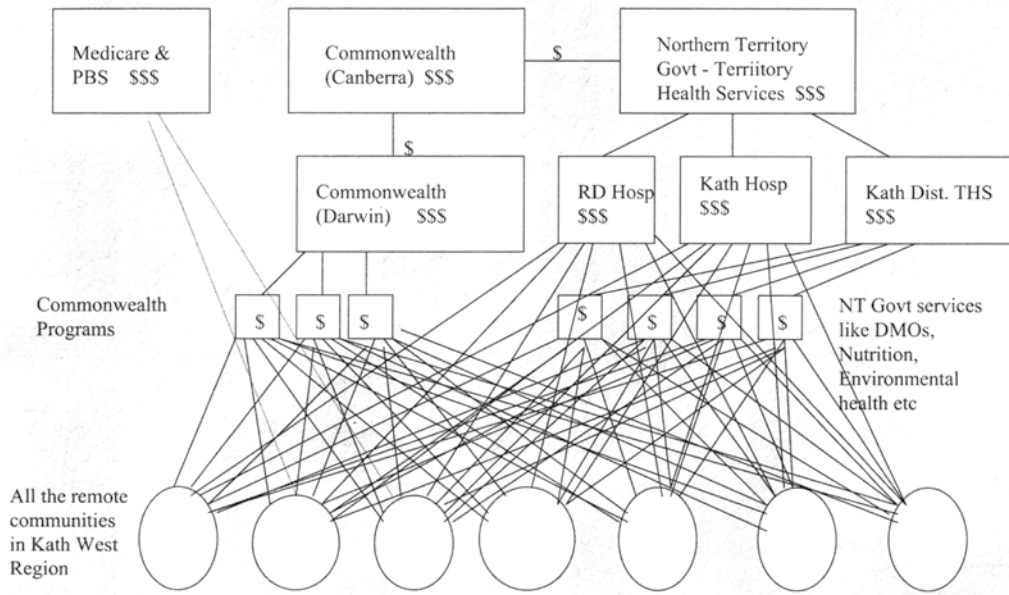
The Katherine West Health Board (KWHB) was established to manage funding and directly provide and purchase services. The CCT gave KWHB the option of providing or purchasing health services, which allowed the board to initially purchase services from the Northern Territory Government, Territory Health Services (THS) (KWHB 2014). In the view of the KWHB, the performance of the THS in delivering these services was unsatisfactory. The model for purchasing services from the THS was reported to be administratively onerous, compounded by regular errors in invoicing and a lack of transparency around the costs charged to KWHB (20036). Consequently the KWHB moved to take over the direct management of clinical and public health services to the communities in the region (KWHB 2003). The sense of ownership and purpose that ensued is understood to have contributed to improved performance.

One of the key objectives of the CCT was to significantly increase funding available to health services through the pooling of Commonwealth and Northern Territory government funds. The THS committed funding that it would otherwise have spent on health services in the region. In addition, the Commonwealth 'cashed out' the Medicare Benefits Scheme and Pharmaceutical Benefits Scheme (PBS) monies at a rate equivalent to the average amount expended through those schemes by Australians, on the basis of their respective estimated populations. The rationale was that in rural and remote regions, Indigenous access to primary health services funded through MBS and PBS was low compared with other Australians (largely because of the absence of general practitioners and pharmacies in remote areas). The pool included additional 'funding to support the costs of administration by the [KWHB, which] resulted in an approximate doubling of expenditure on services compared with the pre-trial situation' (Robinson et al. 2003:7). Beyond the provision of basic clinical services, the CCT permitted the KWHB to develop local priorities and programs, including nutrition, environmental health and other community-based programs (KWHB 2003).
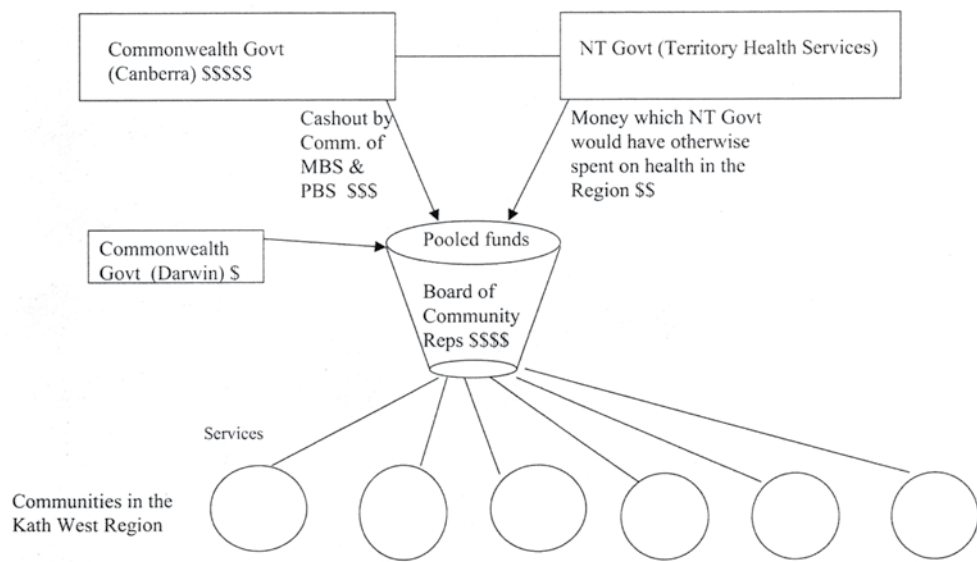
This pool of funding has been substantial, with the KWHB receiving grants of more than $19 million in 2012–13 financial year (KWHB 2013). Current financial accounts are dominated by 2 annual grants from the Commonwealth and the Northern Territory governments' health departments, plus MBS payments. According to the 2012–13 financial report, 65% of KWHB's funding was channelled through a single Commonwealth grant, 18% though a single Northern Territory Government grant, 6% through MBS payments, and the remainder though other sources (fewer than 10) (KWHB 2013). The approach has considerably streamlined funding and service delivery arrangements, as illustrated by KWHB through the following two diagrams.

Example : funding and service delivery mechanisms in the 'Katherine West' region before the CC Trial:

Example : funding and service delivery after the start of the Katherine West Co-ordinated Care Trial

Source: (KWHB 2003:appendix).

The KWHB collects health data and reports on an array of key performance indicators, ranging from episodes of care and immunisation rates to health outcomes. Managers are also required to report progress against the KWHB strategic plan. The national evaluation of the trials confirmed the overall success of the funding modality, and it was endorsed by the then Commonwealth Minister for Health and Aged Care as the future for health coordination and pooled funding (KPMG 2001). Improved accountability was found to be an important benefit

Funding Indigenous organisations: improving governance performance through innovations in public finance management in remote Australia

of the CCT as it 'created stronger demands for accountability in service delivery than had existed within the old departmental regime' (Robinson et al. 2003:7). The establishment of the health boards ensured Indigenous 'involvement in high-level decision making in health service delivery of a kind unknown within previous departmental arrangements' (referred to earlier). This included powers over 'planning, allocation, management and agency coordination' (Robinson et al.2003:6). While time consuming, this participation was recognised as a critical element to the success of the CCT.

While much lauded as a success of pooled funding, this occurred more inter-jurisdictionally than inter-departmentally; that is, vertically (down the hierarchy) within the health departments of the Commonwealth and the Northern Territory, rather than horizontally (across the hierarchy) between different Commonwealth or Northern Territory departments. The limited vertical pooling that occurred was nonetheless highly contested. The Commonwealth initially declined to 'cash out' the MBS and PBS entitlements, until the Department of Finance agreed with the process (KWHB 2003). The possibility of the Commonwealth contribution subsidising shortfalls in THS contributions (known as 'cost shifting') was a risk that threatened to derail the trial before it even began (KWHB 2003).

In 2011, the KWHB approach to healthcare was recognised as a 'model of best practice' by the Australian Medical Association (AMA 2011), having achieved above-average results in nearly all health performance indicators, compared with other Northern Territory providers. KWHB currently consists of 7 main health centres, employing 60 health practitioners and administrative staff. It provides clinical, preventive and emergency health services to a population of around 3,500 people (85% of whom are Indigenous). According to key KWHB board members, this success would not have been possible without the extensive training undertaken by the board members, their commitment to developing their capacity in all aspects of governance, and the considerable investment in administrative structures. While the Department of Health did provide intensive training from the inception of the trials, KWHB criticised how these capacity-building aspects were not funded adequately nor allowed for in the timelines set (KWHB 2003). The experience of the KWHB was rather one of disengagement by government, and as a result government struggled to effectively see the challenges KWHB faced, or recognise when KWHB was making progress. The KWHB's experience supports the need for ongoing and tailored capacity development that is focused on enabling governance capacities that are appropriate to the conditions.

Community Participation Agreements in Mutitjulu

The concept of Community Participation Agreements (CPA) in remote Indigenous communities came out of an Australian Government welfare reform package titled *Australians working together*, introduced in June 2001. Under the CPA arrangements, Indigenous communities were to identify 'practical ways people can contribute to their families and communities in return for their income support' (FaCS 2001:271). This policy was based on the understanding that 'there are few opportunities in some remote Indigenous communities for people on income support to meet [employment] activity test requirements' (FaCS 2001). Mutitjulu put forward a proposed CPA as 'the first community-based initiative' attempting to 'give substance to the new government initiative' (Smith 2001:1). Research and consultations began at the community level before the policy announcement, which 'contributed to thinking in government circles about the need for such a participation mechanism' (Smith 2001:6).

In July 2001, the Australian Government budgeted for $32.2 million over 4 years to be allocated to ATSIC in the interests of developing and managing CPAs for (approximately) 100 communities (FaCS 2001). The Mutitjulu CPA proposed a formal delegation to the Mutitjulu Council under the *Social Security (Administration) Act 1999* (Cwlth). Under subsection 234(1) of the Act, the departmental Secretary may delegate to an 'officer' all or any of the powers of the Secretary under social security laws (Smith 2001:25). The level of delegation proposed was substantial, including the 'power to breach' which had not previously 'been extended outside Centrelink' (Smith 2001:26).

The planning process involved extensive community engagement (Smith 2001). The proposed CPA was to have participation (rather than mutual obligation) as the core underlying principle, which was defined as:

'the mobilisation of individuals, their families and representative community organisations to take an active responsibility for the planning and delivery of welfare services and income support payments, with the specific object of improving their well-being' (Smith 2001 quoted in ATSISJC 2001:85).

The proposed CPA recommended a consolidated block funding and acquittal package, whereby the Community Council would receive and administer the social security entitlements to participants (estimated to be $1.5 million at the time), as well as funding for the considerable support functions proposed, including training, capacity development and economic development initiatives. The breadth of functions required cross-departmental funding contributions from a range of different government departments through consolidated budgetary process. The intention was also to keep the administration burden to a minimum. The proposed CPA sought to 'report on, and acquit, consolidated government block funding on the basis of a single acquittal process and a single set of performance indicators negotiated with government' (Smith 2001:25).

In recognition of the complexity of the administration of this proposal, the community requested 'a measured transition to community management of the delegated authority, during which it would be actively supported by Centrelink and assisted by the full-time secondment of a Centrelink staff member to assist and train Council staff to establish the necessary administrative procedures'. It was also recognised that governance capacity would require concerted attention. As such, the CPA proposed extensive governance capacity development including (but not limited to) training in the areas of: formulation and implementation of policy frameworks for community participation; administration and organisational management; conflict-of-interest processes; welfare case management and brokerage; project development and evaluation; and business and economic development planning (Smith 2001). The proposal also put forward a recommendation for robust monitoring and evaluation strategy that would be used to evaluate implementation and inform ongoing decision making, community planning and adaptation (Smith 2001).

A draft operational plan was developed and a regional project coordinator was made responsible for links between community and departmental partners. A Commonwealth Reference Group was established and made an 'undertaking to progress the development' of the Mutitjulu CPA (ATSISJC 2001:81). Despite these commitments, the government did not go ahead with the agreement. There were several reasons for this. Smith (2008) clearly attributed the failure to the Australian Government's inability to overcome internal interdepartmental politics. In the course of this review, government officials otherwise recalled capability problems and fragmentation within community governance which also prevented agreement being reached locally.

Remote Jobs and Communities Program

The Remote Jobs and Communities Program (RJCP) integrated employment and community development services in 60 remote regions for both Indigenous and non-Indigenous Australians (DSS 2013). Job Services Australia, Disability Employment Services, CDEP and the Indigenous Employment Program were all integrated. A single provider in each region was to be made responsible for implementation. The program was initially allocated $1.5 billion over 5 years and was to be jointly managed by the former FaHCSIA and the former Department of Education, Employment and Workplace Relations (PM&C 2014; DSS 2013). The expression-of-interest process for providers began in November 2012, with the government providing capacity strengthening and support services for potential providers alongside this process. Prospective organisations were required to attend 'purchaser information sessions', including webinar teleconferences. Support was ongoing during the tender process. The successful providers were announced in April 2013.

The RJCP was placed under review late in 2013, so its future is uncertain. The case study outlines the approach that was originally proposed through 2012–13. Through this period, the model was widely held to be innovative due to its 5-year funding horizon and unprecedented level of coordination between 2 major Commonwealth departments.

Engagement with the community was a stated priority of the RJCP policy. As such, prospective providers had to demonstrate community connections as part of the selection criteria, which was a softening of the contested contractualism previously demanded by the former DEEWR. This provision favoured Indigenous organisations over the non-Indigenous service providers.

For the 5 years of the awarded contracts, the national breakdown of funding was: $1.1 billion for 'remote employment and participation activities'; $89 million for the Remote Youth Leadership and Development Corps; and $237 million for a 'the Community Development Fund' (DoE 2014). Providers would receive a range of 'outcome payments' based on quantifiable job placements, numbers trained, and placements in programs such as the Remote Youth Leadership and Development Corps. Participation payments included the 'completion of an intervention to overcome a non-vocational barrier', including counselling or rehabilitation (DEEWR 2012: slide 22). The funding for these activities was provided through the RJCP Participation Account, which was designed to have some flexibility to reflect local needs. There was an initial expectation among RJCP providers that the 'community development fund' would be provided as core funding for pursuing community objectives. However, in the end the grant was limited to a competitive selection process, and as a result some RJCP providers were unsuccessful.

By stipulating 'outcome payments', RJCP gave considerable discretion to the funded organisation about how they achieved that output. Note however that RJCP 'outcome payments' are actually more *output* than *outcome* based. This gave providers flexibility in how they engaged clients in activities, which worked best when located near mining or other employment centres. Although providers received upfront quarterly activity payments based on their caseload with the discretion to use these payments to cover organisational costs, RJCP providers reported problems in the adequacy of these funds to cover core governance functions. The organisations were wholly reliant on the income they generated through participation, activity and outcome payments as well as whatever competitive grant funding they could secure. The payment structure did attempt to take into account the general level of disadvantage, barriers to employment (including higher payments for job seekers assessed as having 'partial capacity') and the difficulties in achieving employment outcomes in remote areas, as well as offering payment structures that reflected the seasonal nature of employment and alike. In the course of the review, departmental officers and RJCP providers confirmed that while the model did take into account remoteness versus urban, it did not differentiate between different remote locations; that is, not all remote regions have mining activity or other local economic prospects. Remote regions with higher levels of entrenched disadvantage, smaller populations of job-seekers, or small to non-existent job markets were thus significantly disadvantaged in their ability to generate income. The cost of delivering services in these communities was also higher, which was not taken into account in the payment model. While outcome payments were designed as an incentive mechanism to improve performance, the lack of core governance funding assumed a level of activity that was in some cases just not economically viable (Howorth 2012).

Using government data on employment barriers and opportunities, each RJCP provider was required to develop a community action plan in consultation with the communities and stakeholders (DSS 2013). There were around 2,500 remote communities involved, so a regional approach was taken because it was not considered feasible to develop a plan for each community. In developing the plans, the RJCP provider and FaHCSIA agreed on a 'series of indicators' for measuring progress to inform the annual performance review (FaHCSIA 2013b:4).

Furthermore, in the interests of responding to community priorities on an ongoing basis, the plan was to be a 'living document'. Providers were required to detail the method used for community engagement as well as record outcomes as they happened. They were also required to demonstrate the ongoing input of community stakeholders. Performance against the plan was to be assessed as part of regular 6-monthly performance reviews. While the plan signalled attention to downward accountability with the promise of tying funding to community-driven planning, the $20,000 funding provided in each region (FaHCSIA 2013b) was clearly inadequate to cover the costs of consultations with disempowered, disengaged and far-flung clients. Based on prior experience in conducting participatory planning processes, it is questionable whether this sum would have been sufficient for a single community, let alone an entire region. RJCP providers consulted during the course of

the review confirmed that this sum was significantly inadequate. The terms of engagement and possible level of community control was also hampered by the predetermined objectives that were built into the funding model. There was little flexibility to pursue meaningful long term economic restructuring and development, leaving the community to plan around an inadequate existent job market (CYI 2013). There have also been criticisms of the amount of funding available for working with the realities of the existent job market conditions—with insufficient funding available to support approaches such as the Cape York Institute's proposed 'orbiting' scheme, involving temporary migration for employment (CYI 2013; Pleshet & Elvin 2013).

The reporting burden in relation to Remote Employment Participation Activities was considerable given the extensive detail required for determining payments to providers and reporting compliance matters for participants. As cited by the Cape York Institute, the Ngaanyatjarraku shire is reported to have criticised the RJCP for being 'intensively centrally planned, misconceived, speculative and poorly controlled, replete with crazed reporting requirements and offering too little money to support a local admin staff' (CYI 2013:20). The rollout in terms of logistics, preparation and administration resulted in disruptions to providers, employers and job seekers (CYI 2013). The current Commonwealth Government has responded by reviewing the future of the RJCP.

Despite these (potential) problems, the RJCP was clearly innovative in many respects. The model was implemented alongside a capacity-development program, which attempted to build capacity in critical areas such as governance structures, program implementation, business and risk analysis, development of operational and business models, community engagement and finance and service delivery functions. The approach also attempted to place communities at the centre of an organisation-wide approach to planning, implementation and accountability within jurisdictional boundaries. Moreover, it sought to integrate across different government programs and implement a 5-year funding model. Based on consultations with government agencies and RJCP providers, and analysis of the funding formula, the viability of the model was undermined by the lack of core governance funding, the disparity in payment opportunities between regions, and the limited terms in which community consultation was permitted.

Commonwealth entities

A few Indigenous organisations in Australia are Commonwealth statutory authorities, as defined under the *Commonwealth Authorities and Companies (CAC) Act 1997* (Cwlth). Note that this became the *Public Governance, Performance and Accountability Act 2013* (Cwlth) from 1 July 2014. Each authority has its own underpinning legislation, administered by the responsible Minister (previously FaHCSIA, now PM&C). These include the Australian Institute for Aboriginal and Torres Strait Islander Studies (AIATSIS), Indigenous Business Australia, Indigenous Land Corporation, the 4 Northern Territory land councils (Central, Northern, Tiwi Islands and Anindilyakwa) via the Aboriginal Benefits Account, the Torres Strait Regional Authority (TSRA) and Wreck Bay Aboriginal Community Council (WBACC). Of these, the TSRA and Wreck Bay are of interest as each are elected Indigenous organisations with clear jurisdictions. It is a requirement of CAC that the accounts of statutory authorities be audited by the Auditor General, through the ANAO. For more information on the Aboriginal Benefits Account see the Terminology section on page 61.

Torres Strait Regional Authority

The TSRA falls under the *Aboriginal and Torres Strait Islander Act 2005* (Cwlth). It is governed by a board of members from 20 wards, who are elected every 4 years under the supervision of the Australian Electoral Commission. Before the formation of the Torres Strait Island Regional Council in 2012, councillors elected in the local government elections on each island were automatically appointed to the TSRA board. In 2012–13, it received a direct appropriation from the Australian Government of $45.7 million. In 2013–14, the appropriation was $49.6 million (ANAO 2013). These appropriations appear as a single line in the TSRA annual financial report.

The Act specifies the functions of the TSRA: in summary, to preserve Ailan Kastom (Torres Strait Islander culture); to formulate, implement and monitor the effectiveness of programs; to develop policy proposals; to cooperate with other Indigenous organisations; and to advise the Minister on the legislation and coordination among Commonwealth agencies active in the Torres Strait. It has its own outcome statement under the former FaHCSIA's Portfolio Budget Statements: 'progress towards closing the gap for Torres Strait Islander and Aboriginal people living in the Torres Strait Region through development planning, coordination, sustainable resource management, and preservation and promotion of Indigenous culture' (FaHCSIA 2013a:10).

Under the Act, the TSRA has powers to make grants and loans, including to the Queensland Government. It operates its own internal grants management including requiring acquittals from the organisations it funds. The chief executive officer is appointed by the relevant Minister, and the 137 employees of the TSRA are public servants under the *Australian Public Service Act 1999*. While the Minister can issue a formal direction to the TSRA, this must be tabled before Parliament. The legislation explicitly states that the Minister cannot interfere with any advice that the TSRA gives to the Commonwealth or a state or territory government. The extent of these powers is unique for an Indigenous authority in Australia, and is similar to the inter-governmental revenue sharing arrangements that exist between the Commonwealth and the states and territories of Australia.

The TSRA's jurisdiction includes all Indigenous people of the region, but it has authority to deliver only some of the services required. This limits TSRA's ability to achieve developmental outcomes on its own, so to be effective it relies on the cooperation of a multitude of other government agencies. An ANAO review (ANAO 2013) concluded that, while the TSRA has effective governance and management arrangements in place for delivering and monitoring its own programs, a structured coordination and monitoring role is not yet in place in relation to programs delivered by other government agencies.

Under the Act, the TSRA is required to prepare a 4-year Torres Strait Development Plan, which coincides with the term of the elected Board. The plan is designed to align with the COAG Building Blocks and to contribute to the Indigenous-specific outcomes of the National Indigenous Reform Agreement. The TSRA has considerable latitude to design its own performance framework (TSRA 2010). A 2013 ANAO audit was critical of the key performance indicators in the plan as they were 'focused on measuring the delivery of aspects of TSRA's programs, rather than achievement of outcomes', and that the 'TSRA does not have a strong measurement basis to assess the impact of its activities on reducing disadvantage in the region' (ANAO 2013:19).

The TSRA also provides detailed information on its activities in its annual report, which is tabled in Parliament. This annual report and the former FaHCSIA portfolio budget statements use the same key performance indicators that have been developed for the Torres Strait Development Plan. The ANAO also undertakes an annual financial audit of TSRA accounts, as required under the CAC Act. The TSRA also prepares quarterly board reports for the Minister.

Successive performance reviews have reported sound governance arrangements for the TSRA (OEAIP 2008; ANAO 2013). However, a 2011 review raised questions about the general lack of community consultation, engagement and feedback and 'considerable confusion among the communities as to exactly how well their views were heard by the TSRA' (Effective Governance 2011:3). At the time of this review, TSRA Board members were appointed by virtue of their local government position, which changed with the move to a directly elected ward system in 2012. The ANAO (2013:23) recommended that the TSRA 'undertakes periodic client satisfaction surveys to gauge the level of satisfaction with TSRA's services, and implements a feedback and complaints process'.

There is a long history of the TSRA in achieving this unprecedented level of autonomy. Claims for autonomy date back to the 1930s (Sanders 1995b). In 1984, the *Community Services (Torres Strait) Act* (Qld) created 17 community councils for each of the inhabited islands, as well as the Island Coordinating Council, composed of the chairpersons from each of the Island Councils. When ATSIC was created in 1990, the Torres Strait Regional Council became one of the 63 regional councils that constituted the elected arm. Immediately, it was assigned special status, with the Torres Strait becoming one of 18 ATSIC zones in its own right and thus with its own Commissioner. The 1992–93 review of ATSIC recommended the Torres Strait Regional *Council* become an

Authority (the TSRA) to exist within ATSIC legislation but with a 'single line appropriation' (Sanders 1995b:511). The TSRA was formed in 1994, and 'one-line budget separate from that of ATSIC' was granted in 1997 (Sanders & Arthur 2001:9). While the TSRA initially existed within the Aboriginal and Torres Strait Islander Commission, Sanders argued that 'the marriage between Islander aspirations for regional autonomy and the ATSIC structure has only ever been one of convenience in which the Islanders have, in many ways, dictated the terms', consistent with their pursuit for ever greater regional autonomy 'outside the ATSIC structure' (Sanders 1995b:521). Notwithstanding its strategic intent, the TSRA secured considerable gains from its association with ATSIC. Its powers and functions, including the limiting of Ministerial directions and single appropriations, were identical to those afforded to ATSIC, under the then *Aboriginal and Torres Strait Islander Commission Act 1989*. Today, the success of TSRA is testament to the regional capability and fiscal autonomy once envisaged for ATSIC.

Calls for even greater autonomy in the Torres Strait have been persistent and are ongoing. In 1997, the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs (HRSCATSIA 1997:xvii) recommended the creation of a Torres Strait Regional Assembly as a 'joint statutory agency' of the Queensland and Commonwealth parliaments, with block funding to 'carry out the existing functions of the TSRA, the [Island Coordinating Council] and the Torres Shire Council'. Subsequent calls for autonomy have appealed for territory status. In Australia's federal system, territories are typically responsible for 'health, education, policing, town planning, physical infrastructure, natural resource management and community services' (Sanders & Arthur 2001:12). As it stands, the TSRA remains only partly in control of some of these areas, raising questions of the relative merits of assuming responsibilities for state services (especially health and education). Former Queensland Premier, Anna Bligh, was reported to propose 'the Torres Strait Islands could be constituted as a self-governing territory, but with the Queensland and the Australian governments continuing to provide services to the territory under a formal agreement' (Elks 2011).

It can be expected that the TSRA will continue to be at the forefront of block grant public financing and Indigenous governance arrangements for years to come.

Wreck Bay Aboriginal Community Council

The Wreck Bay Aboriginal Community Council (WBACC) is an incorporated statutory body that was established by the *Aboriginal Land Grant (Jervis Bay Territory) Act 1986* (Cwlth) for the purposes of granting land, under the Commonwealth's Department of Infrastructure and Regional Development. Council functions fall into the 3 categories of (1) land holding and management, (2) provision of community services, and (3) business enterprises. Membership comprises the Indigenous adults who, under the Act, are registered members of the WBACC. The membership elects an executive committee at every second annual general meeting. WBACC is thus similar to other land councils and community councils in Australia with a clear jurisdictional area. Their executive fulfils the function of the directors for the purposes of the CAC Act.

Although WBACC does not receive annual appropriations like the TSRA, it does enjoy the status of a statutory authority with a direct relationship to the Commonwealth. The majority of its funding is received through a single grant under the 'Advancement of Rights to Land and Sea' (ARLS) program, administered through the local PM&C office. The ARLS grant has recently moved from annual to triennial funding. Similar to a block grant, the ARLS effectively provides core funding for the organisation. WBACC also receives a comparatively small number of special-purpose grants, predominantly from Commonwealth Government agencies (WBACC 2012), as they are located within Jervis Bay, a Commonwealth Territory.

As for all other statutory bodies under the CAC Act, WBACC is required to produce a detailed annual report, including financial statements and an audit report by the Auditor General. So similar to Queensland Indigenous local governments, NTRBs, and the TSRA, the accountability is primarily organised around the organisation, rather than the grant. The unusual aspect of WBACC is the comparative degree of devolution afforded to an organisation of its size compared to other statutory authorities. Wreck Bay is a community of 250 people, living in 48 houses, with an operating budget of just over $4 million (WBACC 2012), which is similar to other Indigenous community governments across Australia.

Part III: International case studies

Part III of the review presents the evidence on international approaches to public finance management in response to fragility, crises and conflict. Part IV then considers how this international evidence can be applied in the Australian Indigenous context.

As previously noted, the public finance arrangements found in many developing country contexts have features in common with remote Indigenous communities. In these contexts, innovations in public finance management have frequently occurred in response to crises, notably fiscal and economic crises. Whereas these crises are often the product of ill-advised macro-economic and fiscal policies, they have also underscored the unsuitability of conventional systems and approaches to meet the needs of people who are peripheral to mainstream economies, political systems and service delivery arrangements. The international experience reveals a progression of innovations, beginning with social funds during the late 1980s, that have responded to these challenges by devolving decision making over key public finance management functions in various ways, and progressively introducing what are termed 'performance measures' into the relationship between local organisations and higher-level public authorities.

Social funds

The first generation of social funds was created to serve as short-term social safety nets to mitigate the impact of structural adjustment policies on the poor. Bolivia, considered the birth place of social funds, used this device to cushion the impact of fiscal stabilisation policies, as did regional neighbours Peru, Honduras and Nicaragua over the period to 1992. A second generation of social funds aimed to build community capacity, and to empower local organisations, by assigning to them limited powers to allocate funds among competing local priorities, and to directly handle the procurement and management of the small-scale investments financed by the social fund. As an oft-quoted definition explains: 'social funds directly finance small community-managed projects, helping to empower the poor and vulnerable by allowing them to become actively involved in their own development' (Levine 2000:1). They are typically run by public authorities outside existing line ministries, which increases their autonomy from civil service regulations, thus enabling the bypassing of institutional weaknesses, silos and bottlenecks, and they report directly to the president or senior executive on how the grants are allocated and used.

The popularity of social funds peaked in the mid-2000s, when they existed in around 50 developing countries, channelling large volumes of aid. The Pakistan social fund, called the Poverty Alleviation Fund, was handling US$500 million by then. Overall, during the past 20 years, between $5 to 10 billion has been channelled through social funds. Evaluations have tended to confirm that social funds were indeed effective at reaching poor communities and improving households' access to basic facilities (Faguet & Wietzke 2006). And, contrary to public finance management conventions, the evidence shows that they were not stymied by the allegedly limited capabilities of community organisations to handle funds and execute projects (Rawlings et al. 2003; Wong 2012). Notwithstanding the successes of this modality, there have been strident critics, including an influential review of donors' own evaluations by Judith Tendler (2000), which warned that the autonomy of social funds, as well as the diversion of resources away from line ministries that they occasion, serve to weaken, and not strengthen, public sector institutions. Others have argued that the impact on local governments and communities should be more deliberately targeted through these financing instruments (Faguet & Wietzke 2006).

Community driven development funds

Community driven development (CDD) is broadly defined as giving control of decisions and resources to community groups. With a view to sustainable and wide-ranging impacts, CDD operations and regional strategies have increasingly embraced two important pillars of sustainability and scale: linking communities to the private sector and to local governments (Kuper 2004:1).

Community driven development modalities represented a further round of innovation to bolster the sagging credibility of international finance institutions (World Bank, Asian Development Bank and the International Monetary Fund) in the wake of the Asian Financial Crisis of 1997–98. The economic crisis reversed decades of progress on poverty reduction, and highlighted the ruinous effects of authoritarian rule on local initiatives and capabilities. Here, the world's largest CDD project—which has since been the template in countries as diverse as Afghanistan and Nigeria—was initially trialled as the Kecamatan Development Program, later transforming into PNPM Rural (1998–2014) (see below). CDD programs typically aim to support three things: participatory planning and investment management; construction of social and economic infrastructure; and strengthening 'local governance', in which the key principles are 'accountability', 'inclusiveness' and 'legitimacy'. The World Bank currently supports around 400 CDD projects handling around $30 billion in 94 countries (Wong 2012:1).

Much has been learned about how to accentuate the positive impacts this modality has had on participation and infrastructure provision, including lessons that resonate with remote Indigenous communities. The quality of community-based organisations, not surprisingly, is crucial, but more striking is the value of clear agreement on, and communication around, priorities—community and government—and clarity on roles and responsibilities (Kuper 2004). The merits of a CDD modality in respect of local governance are more difficult to discern, largely because few impact evaluations have measured them. Based on limited evidence available to date, a World Bank 'meta-evaluation' could not find evidence of positive impacts on local social capital or governance (Wong 2012; see also Dasgupta & Beard 2007 on the Indonesian case).

Indonesian national program for community empowerment

The National Community Empowerment Program, Program Nasional Pemberdayaan Masyarakat Mandiri (PNPM Mandiri), Indonesia's nation-wide CDD initiative, was initially funded by the World Bank as a trial. The program grew to a national program in 2009 and now operates in more than 60,000 villages in some 5,000 sub-districts (Voss 2012)—with close to US$900 million being disbursed through the rural program in 2012 (PNPM Mandiri 2012). The program relies heavily on a large cadre of facilitators. These facilitators support community meetings and promote social inclusion. Civil engineers, who are employed by contractors to the national PNPM secretariat located in a central government ministry, also support the approach with 2 extra volunteer facilitators in each village.

The program provides direct block grants to local communities in the order of Rp. 1 to 3.5 billion (US$111,000–$365,000) to the sub-district level based on population size and incidence of poverty (Voss 2012). The grants are used to fund a menu of 'local development priorities', including social and economic infrastructure, education and health, and micro-loans to women's savings groups. Once the villages have decided upon a project, developed budgets and designs and the proposal is endorsed by government, the money is then provided through the local office of national treasury and transferred directly to the 'joint village account' held at sub-district level and managed by elected villagers through the 'Village Activity Unit' (PNPM Support Facility 2013).

One aspect of compliance in governance has been the use of random audits, the results of which are read publicly to an open village meeting. At the end of the project there is a public acquittal, accounting for what the project has spent (professional facilitators have an important oversight function in these processes). PNPM reports low rates of corruption (PNPM Mandiri 2012), but as is to be expected with such a long-running program across the diversity of the Indonesian archipelago, the governance aspects of this program have attracted both positive and negative review. For instance, there have been criticisms regarding the exclusion of marginalised groups, capture by elites, and weaknesses in governance generally (see for example, Woodhouse 2012; Susilo 2012; Akatiga 2010). Of the USD 3.8 billion disbursed under PNPM since 2008, $12.3 million are known 'to have been affected by corruption' with 5.5 million of that recovered (PNPM Mandiri 2012).

Local development funds

In contrast with CDD projects, 'local development funds' (LDFs) are more explicitly designed to support local authorities (including statutory local governments, but also deconcentrated line departments and community

associations) to handle multi-sectoral planning, budgeting and service delivery. They aim to support adoption of national policies (for example, around sector service standards) through participatory plans and budgets in which the principal line of accountability of decision makers (whether these be elected officials and administrators) is 'downwards' to local constituents. These plans and budgets become instruments to allocate development block grants transferred by higher government authorities. Depending on the local context, government funds can be supplemented with locally raised revenues, from local business, fees and taxes, and funding from alternative sources such as NGOs. LDFs are, in two respects, 'hybrid' mechanisms for local public finance management:

1. They aim to align national and local priorities on public spending—in other words, to align the general public and parochial interest.

2. They impact on local governance accountability in how the 'rules of the game' are observed by local agencies 'vertically' (in relation to higher-level authorities), and 'horizontally' within an organisation (between administrators and elected officials), while on balance, favouring a primary 'downwards' accountability to local constituents.

For information on the history of LDFs, and their application in Pakistan, Vietnam and Uganda, see Craig & Porter (2006).

Proponents of LDFs (UNCDF 1999) argue that they 'put public finance in the service of institutional change' by positively influencing the incentives for good performance across each of the above dimensions of accountability.

Performance-based grant systems

In the past decade, the LDF funding modality has been further developed through more explicit performance-based grants. Although they exist in many variants, most performance-based grants retain the essential features they had when they were first developed in Uganda in the late 1990s (Porter & Onyach-Olaa 1999). In brief, local authorities receive funding according both to what they are entitled to receive and how they perform. The entitlement component is based on formulae incorporating factors such as: population, cost of providing services, relative poverty or wealth, and existing standards of service delivery. Local authorities must comply with 'minimum conditions' before the money they are entitled to receive is transferred to them. The minimum conditions are geared to demonstrating that local authorities are capable of handling public finances, and they are usually based on statutory obligations, systems and procedures (see tables 1–3). When local authorities meet these conditions, the funding is transferred, and the local authority budgets for expenditures according to local plans and priorities, and handles procurement, contracting, certification and expenditures, and eventual auditing, all according to the prevailing public finance laws and regulations.

Many performance-based grants go further and agree about arrangements with local authorities to raise or decrease the size of the basic grants according to how well the local authority performs. Performance measures include revenue collection, participatory planning, and the quality and transparency of financing systems (see Table 1). The funding modality creates incentives for leaders and stakeholders to govern well, to socially innovate, and to return outcomes. It rests on mutual agreements that are negotiated between government agencies and local authorities about the results to be achieved and the ways performance will be scrutinised and measured.

In principle, performance-based grants can be designed to service any of the 6 purposes noted in Table 1. For the most part, however, they have been used to improve spending performance and governance in local infrastructure investments to support social or productive services, with a set percentage of total funds set aside to fund the costs of planning, engineering, supervising and monitoring the execution of the works (refer to point A.1 in Table 1).

Table 1: Potential 'objects of spending' for performance-based grants

Category of spending	Special purpose	General purpose
Capital investments	A.1. Local infrastructure, civil works (for example, health clinics)	A.2. Discretionary spending for any purpose consistent with the mandate of the organisation
Recurrent costs	B.1. Operations and maintenance (for example, salaries, overheads, consumables for health clinic)	B.2. Discretionary spending across sectors, to operate and maintain the services of the organisation
Combined recurrent and capital spending	C.1. Grants to finance any kind of permissible expenditure within the sector (for example, public health education initiatives)	C.2. Unconditional grants with no limitations on utilisation, including maintaining the core governance functions of the organisation

Performance-based grants typically aim to improve service delivery outcomes. But they are distinguished from other funding mechanisms, like the earlier generation of LDFs, in that they specifically aim to improve the governance performance of the organisation—including not just how it manages the grant, but its broader capabilities, for instance, to act in socially inclusive ways, or promote horizontal accountability among elected and administrative officials, as Table 2 illustrates.

Table 2: Governance and service delivery performance through performance-based grants

Performance targeted	Degree of discretion	
	Special purpose	General purpose / Multi-sectoral / Cross-organisational
Governance	Sector performance in planning, administering, delivering of services (for example, traditional birth attendants in Pakistan, health procurement and stock control in Nigeria).	Substantial discretion to allocate resources to improve all functions of the organisation: for example, representation, cultural, employment, regulation, local justice, provided consistent with the mandate.
Service delivery	Discretion only within sector for service delivery outcomes (for example, health clinic grants in Nigeria, school facility grants in Uganda)	High discretion within the sector, to enable activities not necessarily part of national programs, pilot testing local innovations etc.

Performance-based grants have been adopted in 25 developing countries. While design differs across countries (Steffensen 2010), these types of grants have in common 3 elements: 1) the grants scheme; 2) a system of negotiated performance incentives; and 3) arrangements to build capacity. The per capita size of the grant varies considerably, but in general it needs to be sufficient to create real incentives for the local authority to improve their performance; that is, to comply with the minimum conditions, to access the grant, and to achieve the performance conditions through which an increment in the grant size may occur, or increased discretion may be given to how the grant is allocated.

Considerable variety exists in both the minimum access conditions and the performance criteria. For example, in the case of capital development grants—which comprise the majority of performance-based-grant systems —the difference between the systems in place in Bangladesh and Uganda are compared in Table 3 below. The Local Government Support Project in Bangladeshi Union Parishads (UP) project established minimum conditions within the remit of the project. In comparison, Uganda's minimum access conditions required observance by the local authority of a selected range of statutory obligations.

Table 3: Examples of performance-based grants

Local Government Support Project Bangladeshi Union Parishads (UP)	Local Government Development Program in Uganda
Minimum access conditions	
1. No adverse or disclaimer audit opinion (i.e. no major financial irregularities)	1. Functional capacity in place for : a) development planning b) internal audit and financial management c) technical supervision of engineering works
2. Existence of an official UP bank account	2. Approved district development plan available
3. Post of the UP Secretary filled and their attendance in financial management and procurement training	3. Approved comprehensive and balanced annual budget available
4. Annual budget for the forthcoming financial year approved by the UP in an open meeting	4. Books of accounts in order and up to date
5. Once the list of eligible UPs is announced, the UPs must pass a resolution agreed upon in a full UP meeting to accept the conditions of the LGSP (letter of commitment)	
Performance criteria	
1. Regular opening of the UP office	1. Quality of the 3-year development plan
2. Village court operational	2. Performance of the District Planning Committee
3. All the standing committees are established	3. Staff functional capacity
4. UP's participation in BGCC meetings	4. Quality of communication/ information sharing
5. Regular monthly meetings of UPs	5. Quality of the monitoring function
6. Women participation in UP regular monthly meetings	6. Quality of mentoring function to Lower LGs
7. Tax assessment done	7. Quality of the capacity-building effort
	8. Quality and timeliness of accountability
	9. Quality of LGTB procurement/ functionality
	10. Tax collection effort

Sources: De-Lay 2011; Steffensen et al. 2002.
Note: Union Parishads (UPs) are the smallest rural administrative and local government units in Bangladesh.

The process of assessing local authorities for their compliance with minimum access conditions and achievement of performance conditions is of vital importance to the viability of the performance-based grants system. First and foremost, however, is the process through which both sets of conditions have been negotiated between higher levels of government and the local authority. From experience, 3 things are crucial here. Firstly, that the conditions are consistent with the local authority's statutory responsibilities and policy commitments of their respective governing body. Secondly, that the conditions are consistent with the purpose of the grant, and can be assessed objectively (that is, have indicators that can be verified through the collection of data that is contestable). Thirdly, it is vital that the assessment process is perceived to be independent and neutral—most often the assessment process is overseen by a central government agency, and the process tends to work best where this agency is *not* also responsible for the grant, or to the outcomes that the grant is intended to service. In sum, the credibility of the process is enhanced if it includes only those indicators that can be verified and are clearly within the direct influence of the local authority to achieve; can be itself reviewed for quality assurance; and can be made transparent, typically through the direct involvement of local authority representatives and other relevant stakeholders (UNCDF 2011:24).

Table 4: Tanzanian example of scoring system

Functional area	Total score	Minimum score, to avoid penalty	Minimum score to receive bonus
Financial management	**25**	**12**	**18**
Fiscal capacity	25	7	12
Development planning	27	12	22
Transparency and accountability	15	6	12
Interaction with lower local authorities	10	4	7
Human resource development	13	5	9
Procurement	14	6	10
Project implementation	26	10	18
Council functional process	5	2	3

Table 5: Comparative country examples

Features	Uganda (1999+)	Ghana (2009+)	Nepal (2004+)	Bangladesh (2004+)
Minimum conditions	**Yes (8)**	**Yes (9)**	**Yes (13)**	**Yes (4)**
Performance measures	Yes (121)	Yes (56)	Yes (57)	No, but in pilot (41)
Assessment process	Ministry oversight. Combined public/private teams	Contracted to private sector	Contracted to private sector	External audit
Scoring	Fixed scoring method (Yes/No scores and % scores)	Scored relative to each other LG	Fixed scoring	Fixed scoring
Formula for grant	Population + land area, plus performance adjustment	Population + land area, plus performance adjustment	Population, HDI, cost index, plus performance adjustment	Population plus performance adjustment

Source: Steffensen 2010.

Arrangements to support the capacity of local authorities are central to any successful performance-based grants. Beginning with Uganda in 1999, 2 points were established. Firstly, given the wide range of capabilities of local authorities (political, technical, fiscal), it is clear that these systems 'bet on the strong'—that is, already more capable local authorities would be more likely to achieve the basic access conditions, and to score well on the performance measures, and thus over time receive proportionately more discretionary grants than those not so well endowed. Secondly, conventional training approaches to 'building capacity' tended not to perform well, and introduced perverse incentives to local authority performance. Unusually, when performance-based grants include a capacity-building approach, they typically place the onus of responsibility to improve capacity with the local authority itself. Thus, a separate grant is often dedicated to this purpose. The higher authority sets the standards for training, mentoring or recruitment of technical expertise (for instance, through accreditation procedures), but the local authority remains responsible to 'do the work' needed to build its capacity. Either directly or through third parties, they supervise and ensure the quality of services provided by 'capacity-building agencies'.

During the past two decades, performance-based grants have accumulated positive evidence and they have learned some lessons about their limitations and prerequisites.

On the positive side, they have often shown marked and sustained improvements in local authority capacity, including fiduciary standards, efficiency and timeliness in utilisation of grants, quality of the assets created, cost-efficiency and sustainability, transparency and accountability, and incentives to attend to cross-cutting policies, such as gender inclusion, and targeting of marginal sections of the population (for example, poor households, disabled, marginal areas in the locality). Further, while performance-based grants may be

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introduced and championed by one lead government agency, over time the access and performance conditions and the reward and sanction procedures tend to be adopted by other agencies. This improves cross-sectoral coordination among government agencies.

Important lessons have also been learnt. As noted, of crucial importance is that the conditions, the rewards and sanctions and the assessment process is subject to extensive prior consultation, both to tailor these elements to local realities, and to build bipartisan ownership of the system. Further, the experience of performance-based grants is influenced by the degree to which the staff of the local authority are primarily accountable to its elected governing body. When they are not primarily accountable (due to human resource and remuneration procedures), overall performance tends to weaken. At all levels of administration, both in higher-level agencies and locally, the political will to implement the results of the assessment process, including to penalise poor performance, needs to be consistent and in accordance with what has been objectively determined and agreed. The policy underpinning performance-based grants needs consistent application: where policy 'pulses' or where policy is uncertain, incentives for local authority leaders to take the process seriously and invest political capital are undermined.

Part IV: Discussion

Comparison between the international and Indigenous experiences

The evidence from the international case studies explored above illustrates the potential for funding modalities to create enabling conditions for improved governance and performance in remote and contested settings. Table 6 below gives a comparative analysis between 13 key characteristics distilled from the international evidence applied to each of the Australian case studies.

All of the key characteristics from the international evidence were assessed to be present in the Australian system, but just not in any one single case study. The challenge in designing improved funding mechanisms would be then to *consolidate* these favourable aspects into the one model, rather than introducing new characteristics that have never been tried.

In any design of new funding modalities, Table 6 can be useful in that it indicates the weakness of current Australian examples in the following areas:

- Performance indicators are not well negotiated with the funded organisation (characteristic #6).
- Incentives are not well provided for improved governance and/or service delivery performance (characteristic #7).
- Funding mechanisms are generally not conditional on primary downward accountability mechanisms to the organisation's constituency (characteristic #13).

Table 6: Key characteristics from the international development evidence compared to the Australian case studies

Legend: *blank*   **no** correspondence

·   **partially** corresponds

•   **mostly** corresponds

●   **fully** corresponds

–   **not** applicable/unknown

Key characteristics from the international development evidence	Case studies from Indigenous Australia								
	Qld LGAs	PHC-B ACCHO	NTRB NTSP	CDEP	MBS ACCHO	KWHB	RJCP	TSRA	WBACC
1) Organisation linked to a clearly defined territorial jurisdiction	●		●			●	●	●	●
2) Organisation linked to clearly defined jurisdiction according to a service delivery mandate	●	•	●	•	•	●	●	●	●
3) Funding provided in a block form, with acquittal and reporting requirements built around the organisation (rather than the grant)	•	•	•	•	–	•	·	●	•
4) Funding secure for medium term (3–5 years)	●	●	•	•	–	●	•	●	·
5) Discretion devolved to the local level for budgeting, planning and decision making, allowing the organisation to respond to locally identified priorities	•	•	•	•	●	●	•	●	•
6) Performance indicators negotiated that are within the reasonable influence of the funded organisation	·	•	·	·		•	·	•	·
7) Incentives for improved governance and/or service delivery performance	•	·			•		•		
8) Minimum requirements/standards specified in order to access the grant	•	•	•	·	●	–	•	•	•
9) Culturally and contextually appropriate governance structures supported within the funding framework	·	•	·	•	–	•	•	•	•
10) Capabilities supported for organisation to achieve minimum governance and service delivery performance standards	•	●	·	•	–		•	•	·
11) Devolution actively risk-managed through ongoing government engagement	•	●	•	•	–		•	·	•
12) Core governance functions explicitly funded	•	•	•	·	–	•	·	●	·
13) Funding conditional on downward accountability mechanisms	·	·		•		•	·	·	·

Abbreviations: ACCHO: Aboriginal Community Controlled Health Organisation; CDEP: Community Development Employment Projects; KWHB: Katherine West Health Board; LGAs: Local Government Authorities; MBS: Medicare Benefits Scheme; NTRB: Native Title Representative Bodies; NTSP: Native Title Service Providers; PHC-B: Primary Health Care Base; RJCP: Rural Jobs Community Program; TSRA: Torres Strait Regional Authority; WBACC: Wreck Bay Aboriginal Community Council.

The challenges of the policy environment

Remote Indigenous settlements are at the periphery of the Australian state, and governments are at full stretch—geographically, culturally, logistically—when dealing with them. They are seen as risky, and often ungoverned, spaces of deficit and dysfunction. Public finance management is one key way in which governments relate to remote Indigenous communities. As described in Part I of this review, the current system is highly fragmented (DFD 2010:13; NCoA 2014:173-4), driven by compliance and disciplinary measures (ANAO 2012:82; Dwyer et al.2009:28, 48; Martini et al.2011:9). There is mounting support in government for a new approach to funding Indigenous organisations, as noted in the Forrest Review:

> 'Instead of the crippling government oversight of thousands of small projects and funding agreements, I propose that service delivery be consolidated into responsible, properly-governed first Australian organisations with a system of verification to ensure probity and accountability' (Forrest 2014:16).

While the effectiveness of the ATSIC model is a point of considerable debate, including the internal political problems it experienced (Pratt 2003), its demise corresponded with the loss of a jurisdictional basis for Indigenous governance. Once Indigenous organisations were no longer seen as jurisdictional in the sense of their identification and links with the Indigenous communities being served, important shifts occurred in how governments related to them. Indigenous organisations became entitled to be treated as service delivery contractors, in the same manner as NGOs and private corporations. The review of case studies in this paper clearly shows that those that fared best were those that were able to retain a clear jurisdiction, primarily territorially (for example, Queensland Indigenous local government authorities, TSRA), or to a lesser extent for their service delivery mandate (for example, clinic health service and ACCHOs, native title services for NTRBs). Organisations in the latter category have tended to specialise in culturally specific subject matter that cannot be readily outsourced to non-Indigenous organisations.

In the post-ATSIC period, the management of Indigenous affairs has been mainstreamed across multiple line agencies. Marked diversity has emerged in how these line agencies approach public finance management. The Department of Employment and Workplace Relations (DEWR) favoured contested contractualism (Sanders 2007), awarding contracts to NGOs and private companies in competition with Indigenous organisations. DEEWR also championed output and outcome payments (for example, job placements and training placements) over grants. In comparison, the Department of Health and Ageing (DoHA) developed a block funding system for community-controlled health organisations, a modality widely denied in other sectors of government. In further contrast, the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) increased the number of special-purpose grants, offering grants equitably to a multitude of Indigenous organisations. Thus almost every Indigenous organisation in Australia was eligible to receive a small grant to celebrate NAIDOC week for example. The number of grants proliferated: typically they were less than $1,000 in value (calculated from analysis of prior FaHCSIA Grant Management System database). This paper has not examined the conditions that have led to this range of approaches by 3 Commonwealth departments, but it is clear that the common rules of public finance management are interpreted and applied differently.

The custodian of public finance management for the Commonwealth is the Department of Finance (formerly Finance and Deregulation), which maintains current grant and procurement guidelines. The exception is the Financial Assistance Grants (FAGs) to local governments, which fall under the *Local Government (Financial Assistance) Act 1995* (Cwlth). While the guidelines were commonly held to be highly prescriptive, this study found significant variety in how they were interpreted by line agencies. There is great diversity in government financing arrangements, ranging from general-purpose grants with considerable discretion and minimal reporting expectations (for example, SGFA, RJCP) to tightly prescribed special-purpose grants with cumbersome and highly specific reporting requirements (for example, FaHCSIA grants to Indigenous organisations). The range of prescription and reporting arrangements are best illustrated by 3 divergent examples.

Julalikari Council Aboriginal Corporation, based in Tennant Creek, performs a broad cross-sectoral service delivery role in the Barkly region, including housing, aged care, night patrols (Tennant Creek only), work-for-the-dole and training programs, and it delivers municipal and essential services to remote outstations. In its 2011–12 financial report, it acquitted against 81 different grants, around 30 of which were carry-overs from previous years. The corporation covers the costs of its core governance functions by charging a small percentage administration fee from these grants, where allowable, and from available self-generated income. The literature on Indigenous governance attests to Julalikari being the norm, with a general lack of untied general-purpose funding, and a multiplicity of small and short duration grants.

The TSRA sits at the other extreme. The TSRA is the only example of an Indigenous authority in Australia receiving a single direct appropriation in the form of a block grant to cover the entirety of its operations. There is a significant degree of autonomy and flexibility, compared with other funding modalities, allowing the TSRA to plan, self-govern resources, and monitor and evaluate outcomes, with one consolidated annual report. The single line appropriation of government revenue provides a far more streamlined administrative and reporting onus. The TSRA history is unique, and its fiscal relationship with the Commonwealth is best described as inter-governmental, similar in status to an Australian state or territory, as occurs in the United States and Canada under their treaty systems. While it is difficult to generalise about this special arrangement, there are some local and regional Aboriginal authorities who can demonstrate similar capability trajectories.

In between these extremes are examples of 'core governance' funding models, where a proportion of the organisation's core functions and governance activities are funded through a block grant, and the remainder funded through (typically, a series of) special-purpose grants. Most of the case studies (for example, Indigenous local government authorities, ACCHOs, Wreck Bay, NTRBs) fall into this category. In other case studies, this is not achieved through a block grant, but rather a workaround, usually based on a citizen entitlement (for example, CDEP, MBS). ACCHOs tend to incorporate a hybrid of the two: core governance funding is provided through a broadly defined grant for primary health care (PHC-Base) which is often used in conjunction with MBS payments to fund the core functions and governance of the organisation. Across ACCHOs, the mix between these sources of funding varies enormously, depending on their ability to generate MBS revenue as well as access other grants and streams of income. Nonetheless this hybrid model does demonstrate at least some potential for flexibility and a reduced reporting burden.

In considering these different funding modalities, this review has found a simple advantage of block funding is its improved administrative efficiency. Organisations that receive block funding handle a smaller number of grants compared to those without it. This reduces the transaction and reporting costs for both Indigenous organisations and government departments.

While in theory it would be possible to pool funding across different departments into the one consolidated block fund, prior attempts to do so have been unsuccessful or at least significantly hampered. The challenges faced are as much a function of the compartmentalisation between government departments and different levels of government (for example, KWHB, also Mutitjulu CPA) as of the performance of Indigenous organisations. Pragmatically, future attempts to pool funding across departments should not be ambitious in their scope. There is a greater chance of success if pooling occurs between different programs that exist within the one Commonwealth government department, rather than across a range of different departments. Past attempts at horizontal pooling of funds between different Commonwealth departments have generally struggled (for example, Mutitjulu CPA and literature on COAG trial sites, reviewed in introduction to 'pooled funding arrangements' above), whereas vertical pooling within the confines of particular departments have enjoyed more success, albeit with serious challenges (for example, KWHB).

Block funding seems to occur more readily when there is a direct relationship with government treasuries, either Commonwealth to the local government (for example, FAGs), Commonwealth to the citizen (for example, Medicare, CDEP), or state governments to the local government (SGFA to Indigenous shires in Queensland). When funding is provided indirectly through a grant program, channelled through intermediate government

departments, the attendant reporting increases and the devolution decreases. More direct relationships with central treasuries tend to be accompanied by less reporting and greater devolution of decision making.

Fundamental to the operations of the public finance system is the way that appropriations are presented to and approved by parliament. If the appropriation takes the form of a sector-wide program or project, administered by a line agency, then there is very little flexibility in how program staff can depart from the terms of the appropriation to adjust this program to local circumstances and to pool it with other funding sources. For funding to be useful for core governance, it seems that it needs to be appropriated from parliament to the organisation's general purposes (for example, FAGs, TSRA, ACCHOs).

The limits of devolution

Elsewhere, the authors have argued the case for the political capabilities that exist within the electorates of Indigenous authorities (Moran & Porter 2014). The Australian case studies have been hampered by the lack of systematic evidence and observations of actual expenditure behaviours and patterns; that is, the agency of community leaders and frontline staff around the political economy of governance of public finance. There is a realpolitik whereby Indigenous organisations operate under the radar, finding room to manoeuvre around prescription, often by exploiting overlaps in grants, creatively interpreting the purposes or rules attending the grant, or by filling gaps with own-source income. Such is the complexity of financing arrangements that audits and other financial reporting do not reveal the full extent of these behaviours.

This lack of evidence impedes comparative analysis of how different modalities to manage public finances affect the capabilities and actual performance of Indigenous local organisations. This deficiency in academic research and contracted evaluations is mildly astonishing, given that the problems arising in these areas have been widely publicised for many years. While it is also true that many Indigenous organisations and government departments resist this kind of enquiry, the fact remains that knowledge is largely anecdotal and highly attuned to the perspectives of higher levels of government. Thus, governments are more inclined to repeat a litany of 'deficits and dysfunctions' in relation to compliance with the interests of higher-level governments, and we are less able to offer insight into actual practice or potential opportunities.

Funding modalities and policy settings are not the only factors influencing the success or failure of Indigenous organisations. The history of NTRBs is a case in point: under the same legislation and funding modality, some NTRBs failed and others prospered. The causes of this would be an insightful subject for further research. Clearly, there are many conditions that may be attached to successful governance, of which devolved funding modalities are but one. Some of these factors are known to include institutional capacity, technical capacity, external networks and community participation (Moran 2006).

Devolution of powers to plan, budget, and manage the delivery and continuation of services cannot be simply assumed to accompany block funding. While commonly associated with untied general-purpose funding, block funding can also occur under a single reporting framework through tied specific-purpose grants. Decision-making powers can be completely devolved to local authorities and organisations, or they can be limited by a list of proscribed items (what you can't spend on), or they can be so closely circumscribed to particular expenditure items that no devolution of powers to allocate these resources among competing priorities actually occurs. The international experience is that block funding works more effectively when it is accompanied by devolution, but within limits. Chances of success are enhanced where the rules of the game clearly specify the responsibilities of higher levels of government, as well as the boundaries of political discretion and administrative obligations of local authorities. The developing countries included in the study—including some of the most fragile and hostile in terms of their governance capability—show that outcomes can be enhanced through the use of performance-based conditions to reward and sanction political leaders and administrative officials.

While there is no direct causative link between devolving funding and increased democratic accountability to constituents, under some conditions this link can be strong. This does not presuppose some cohesive, conflict-free community. Indeed, the experience of devolution worldwide has been that local political and social contest is heightened, and outcomes, political and social, can be asymmetrical, benefiting some more than others. Rather, devolved funding models tend to embrace the substantive politics of places, including competition, privilege, exclusion and factionalism that are typical everywhere. When incentives are in place, including reward and sanction at the ballot box and arrangements to value and reward participation through incentives tied to funding, new types of leadership can emerge, and elites can be encouraged to act more in the public good. When downward accountability is fostered as a deliberate purpose of how public finance is managed, it can work to balance the tendency of higher-level governments to preoccupy accountability systems with their own interests.

Reforms introduced since the late 1990s and entrenched by successive governments have failed one critical test. Public finance management arrangements should enable, rather than limit, the domain of substantive political representation and the accountability of territorial authorities to the constituents in their jurisdiction. Vertical accountability upwards to the source of funds is important, but this should not come at the cost of primary accountability, downwards to constituents. Public finance systems need to foster accountabilities between Indigenous political leaders and their organisations responsible for delivering services, and likewise, promote relationships between Indigenous organisations and Indigenous citizens based on agreements about rights, obligations and responsibilities of both parties.

In contrast to the international case studies, funding mechanisms to Indigenous organisation are generally not conditional on—nor do they provide rewards or incentives for—demonstrated primary downward accountability mechanisms to the organisation's constituency; clearly, this in an area for potential improvement.

Block funding for core governance functions

Although block funding has never been explicitly trialled in Indigenous Affairs, the case studies indicate that there are sufficient examples to examine its efficacy. The Australian case studies support the proposition that Indigenous organisations will be better able to fulfil their 'core governance functions' when they are explicitly funded to do so. Time freed up from administering multiple grants can be better spent in achieving the outcomes desired from public financing in the first place, including the core governance and accountability role of Indigenous organisations to their constituency.

Many Indigenous organisations are successfully functioning across Indigenous Australia. But this system is clearly inefficient, unfriendly and overburdened with reporting. It need not be so. Every organisation—whether public, private or NGO—needs to fund core governance functions. There is considerable activity involved in genuinely engaging stakeholders, in building community ownership, convening member and governing board meetings, forward planning, preparing budgets, managing expenditure, and basic organisational functions like human resource and asset management. Considerable resources are also required for meeting reporting requirements and engaging with government stakeholders, policy makers and funders. Performing such core functions to exist as an organisation and to negotiate the broader political environment is a legitimate public good that can, and should, be explicitly funded.

The effective and accountable conversion of public finances to outcomes is central to realising the goals of Indigenous development and 'closing the gap'. Under the COAG 'Closing the Gap' reporting framework, *governance and leadership* is a designated *building block* necessary to achieve the target *outcomes* in health, education and employment. It is thus a means to an end, along with the other building blocks: early childhood, schooling, health, economic participation, healthy homes and safe communities. The Productivity Commission, in its report *Overcoming Indigenous disadvantage: key indicators*, compiles an impressive array of metrics against all of these targets and building blocks, with the notable exception of governance, where they adopt a

qualitative method of picking case studies of best practice, in stark contrast to the rest of their report. (SCRGSP 2011:Ch.11). Given the quantity of administrative data collected by governments to measure the performance of Indigenous organisations, it is surprising that so little of it is available for the Commission to measure governance and leadership. This appears to derive from a lack of clarity around what governance is and how it can be measured.

In comparison, international development has for many years recognised the causal relationships and interplay that exist between funding modalities, service delivery and governance outcomes (Foresti et al. 2014; Moore 2004; Porter et al. 2011). Accordingly, in addition to the numerous outcome measures and key performance indicators that accompany development assistance, there is a corresponding effort to measure the effectiveness of the public finance modality in terms of governance outcomes, including the quality of planning, budgeting and expenditure. For instance, an evaluation conducted in 2012 examined the different modalities for local service delivery in Timor Leste (World Bank forthcoming). In addition to their relative merits in delivering quality infrastructure, the Government of Timor Leste required an assessment of the how public finances affected other policy priorities, including stability and peace, local governance and accountability and local disputes and conflicts. Put simply, the record tends to show that higher scores on service delivery outcomes are typically found alongside higher-quality modalities, and higher-quality governance outcomes—that is, where these relationships are explicitly attended to in how they are designed.

Negotiated (not imposed) metrics for core governance

Highlighting the relative advantages of block funding modalities for core governance does not equate to reduced accountability for the spending of public money. Performance-management frameworks will always be required, and these will always be contested between the funder and the funded. Block funding models can achieve and outperform the current benchmark of accountability resulting from the administration of multiple grants. In particular block funding lends itself to developing accountability frameworks around the organisation in a manner that is explicitly tailored to the kind of outcomes desired and needed on the ground. It permits accountability to be organised at the organisational level—not the grant, program, or project level—especially when the organisation has a territorial jurisdiction.

Negotiations are required between governments and Indigenous organisations to explore what types of indicators would be appropriate for monitoring and measuring performance and outcomes in core governance (as well as performance in core functions) to accompany a block funding model. This research would bring Australia into line with international efforts in the lead up to the 2015 deadline for the Millennium Development Goals and the emerging post-2015 development agenda (Foresti et al. 2014). For more information see: <http://www.un.org/en/ecosoc/about/mdg.shtml>. The examples from countries abroad illustrate the wide range of indicators applied to governance elsewhere. Metrics for core governance would need to be multifaceted around 3 core aspects of governance:

• primary downward accountability, from leaders to constituents (for example, public input into policy decisions: explicit links between policies, plans and budgets, public dissemination of information; community requests and complaints resolved; voter turnout or membership base; nature and extent of community consultation around core functions)

• horizontal accountability, in which employees and officials follow the rules of the organisation, and receive direction from leaders (who in turn are primarily accountable to citizens)

• vertical upward accountability, including not simply observance of corporate, fiduciary norms and practices, but also efforts to reconcile local/parochial priorities with higher order (national, state) policy priorities.

Whatever outcomes, metrics and indicators are negotiated and agreed, it is critical that that these performance measures are within the power of the local authority to materially achieve. As noted in Part II of the review, a common error from the international experience is for higher-level governments to propose measures or results

for which the local authority can only indirectly influence, or results for which a range of agencies are severally responsible. Evaluating impact and social development outcomes can also be a complicated endeavour with the need for longitudinal baselines and credible counterfactuals, requiring the input of expert analysis, often beyond the capabilities of both Indigenous organisations and governments alike.

These metrics would allow governments to: fund and measure core governance; track and compare over time trends in performance on governance (accompanied by performance against negotiated service delivery metrics); while alleviating accountability fears and encouraging governments to enter into block funding or other flexible funding arrangements. Where capacity development in core governance is required, it should be funded and supported. But once established, the organisation should be left to plan and manage its own affairs, to align itself with community expectations and needs, and to provide a platform for government to fund organisations based on the distinct and complex needs of its constituency.

Statutory provisions and 'whole-of-organisation' performance agreements

Most of the successful examples of block funding (for example, Queensland Indigenous local government authorities, TSRA and Wreck Bay) operate under a range of overarching statutory requirements, which prescribe reporting for the whole organisation, in addition to the various grants that they receive. For example, the Indigenous local government authorities in Queensland operate under the *Local Government Act 2009* (Qld), as well as a suite of Queensland Government legislation (for example, building, planning and environmental protection). They operate under statutory provisions that set their performance frameworks, built around the *whole of the organisation* rather than the *grant*, through the likes of annual reports and audits, operational polices, and forward planning documents. As a statutory authority within its own unique legislation, the TSRA is beholden to a range of 'whole-of-organisation' reporting requirements. Significantly, it also negotiates its own performance-management framework, embedded within its 3-year development plan, which then frames its annual budgeting process.

These two examples suggests that clarity of territorial jurisdiction and overarching statutory provision for governance have a unifying effect in terms of public financing for governance. Government agencies are more inclined to allocate block funding, or reduce earmarking and reporting requirements, when a 'whole-of-organisation' performance framework exists outside of the scope of their funding portfolio.

The *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (Cwlth) (CATSI Act) does *not* provide the same level of controls as the other statutory frameworks considered throughout this review. It is also interesting to compare the patchy success of NTRBs nationally and the general lack of governance provisions that are stipulated in the Native Title Act. The CATSI Act and its precursor, the *Aboriginal and Councils and Associations Act 1976* (Cwlth) were specifically established to serve the needs of Indigenous organisations with simplified reporting requirements and model rules (Corrs Chambers Westgarth et al. 2002). A large proportion of Indigenous organisations currently operating under the CATSI Act do not have the capability of the statutory organisations outlined above. Therefore simplistic solutions such as introducing legislative changes to bring about a stronger statutory framework, for instance, might have detrimental effects. The question rather then is how the CATSI Act might better provide a whole-of-organisation performance-management framework, or a realistic, staged approach, so that Indigenous organisations could reasonably move towards more block funding arrangements.

It is interesting to compare the arrangements that OATSIH (now IRHD) have developed in the funding of ACCHOs in the absence of a comparable overarching statutory framework for governance and a lack of clarity of a clearly defined territorial jurisdiction. Through a combination of a head agreement, action plan, and various accreditation regimes, the OATSIH and ACCHOs developed an innovative and intricate 'whole-of-organisation' performance agreement. They were able to negotiate this performance framework, through the predominance

of IRHD funding to the community-controlled health sector, compared to other funding sources. State and territory authorities (or even other sections of the Commonwealth Department of Health) are not legally compelled to follow the head agreement, as they might if the provisions were legislated.

Enabling autonomy

In 2012, the Department of Finance and Deregulation instigated the Commonwealth Financial Accountability Review, with the three guiding principles:

- 'government should operate as a coherent whole
- public money is public money, irrespective of whose hands it is in; performance of the public sector is more than financial
- engaging with risk is a necessary step in improving performance' (DFD 2012:3).

Central to proposed reforms is the notion of *earned autonomy*: 'rather than applying a one-size-fits-all approach to regulation within government, the nature and extent of regulatory intervention under an earned autonomy model would be dependent on an entity's risk profile and performance' (DFD 2012:x). The intent is to relax reporting requirements for 'low-risk' operations, including by introducing a template to assess risk. Following on from that review, the *Public Governance, Performance and Accountability (PGPA) Act 2013* (Cwlth) will be enacted from mid-2014. As important will be the rules and regulations, currently being developed, to articulate this new law. For more information see: <http://www.pmra.finance.gov.au/>.

The Commonwealth Financial Accountability Review falls short of explicitly exploring the role that funding modalities might *proactively* play in improving capability, especially in contexts that are seen to be of high risk. These new approaches do not consider how to help the many Indigenous organisations in Australia that are currently struggling to somehow 'rise above the odds' and 'earn autonomy' in the face of the accountability requirement of multitudinous grants and programs. The challenge will be to take public financing from an *earned* autonomy approach to one of an *enabled* autonomy approach.

There are legitimate concerns about the governance and management capabilities of Indigenous organisations. These will not be resolved by devolving all authority (and associated risks) to Indigenous organisations, leaving Indigenous organisations to struggle through on their own. When self-determination policies were ascendant during the 1980s and 1990s, devolution was often accompanied with government disengagement: it was what Smith (2002:5) described as a 'dump and run exercise'. A common trait to emerge from new public management approaches across government is to strictly manage for outcomes and impacts, with blissful detachment from the challenges of implementation (for example, RJCP). A similar system operates under Vocational Training and Employment Centres program. Outcome payments are due after a jobseeker has remained in employment for 6 months, but the means and risks of achieving this is left to the service provider. Such disengagement results in a lack of visibility (and feedback) of the challenges organisations face, as well as an inability to see when genuine progress is being made (for example, KWHB). Of the successful case studies reviewed, capability tended to develop when governments remained engaged (for example, ACCHOs, TSRA and Indigenous local government authorities in Queensland).

The international case studies demonstrate that the dividends of a transition to block funding, particularly performance-based systems, and the devolution of decision making, planning, implementation, monitoring and accountability will not be delivered without support, particularly in the early stages (for example, Indonesia's PNPM). Capacity building does not translate to government designing and then contracting out governance training and other compliance programs. The relationship is more transactional and negotiated with training embedded in the context: it should be responding to demand. The onus of responsibility for capability building can remain with the local organisation (for example, ACCHOs and their national and state affiliates), but frontline government workers acting as facilitators, risk managers and brokers still play critical roles.

Investment is required both for risk management and capacity development, in equal measures. The international examples of performance-based grants—whether in Pakistan, Uganda, Tanzania or Ethiopia—have, in common, their recognition of the need to balance fiduciary risk management considerations with progressively greater degrees of discretion and autonomy across each stage of grants management. In Australia, similar precedents informally exist where governments have treated organisations with proven track records more favourably in some circumstances. This informal practice could be made more transparent so organisations explicitly understand the pathways to 'earn' their autonomy—allowing all organisations equal progressive access to such autonomy. The few known examples of responses to lower risk assessments are currently limited to reducing the level of oversight and reporting requirements low-risk organisations are subjected to (for example, ACCHOs). While this falls short of the sort of incentives that performance-based grants entail, it does at least demonstrate an ability in government to tailor systems locally in keeping with capability.

The *stability* of financing arrangements is another critical factor to creating an enabling environment for capability to build. The most capable Indigenous organisations are those that have enjoyed relative stability in their funding arrangements. This is particularly evident in the growth of capability of Indigenous local government authorities in Queensland, with more than 20 years of consistent core governance funding provided through the SGFA and FAGs. A similar stability of funding has existed for the TSRA and KWHB. The opposite effect is evident in the numbers of organisations that faced financial hardship or collapsed when the Commonwealth moved to competitive tendering of CDEP contracts. These case studies demonstrate the dividends that can be possible by stabilising core funding of Indigenous organisations, to permit long-term planning, to encourage the continuity of core staff, and to allow the development of robust operating systems.

Rewarding performance and incentivising capability

There is an opportunity to trial more performance-based funding arrangements, so as to incentivise performance on a whole-of-organisation basis. The only known example of performance-based funding for Indigenous organisations is a fledgling trial among the Indigenous local government authorities in Queensland, but this trial does not meet international best practice in terms of how performance measures can be negotiated and incentivised.

Performance-based grants systems determine funding in keeping with agreed access conditions and performance measures. Compliance is enabled through a mix of incentive and sanction. To be effective in incentivising capability, they require clarity on mutually agreed 'access conditions' to financing, and prior agreements on 'performance conditions' governing continuing access, rewards and sanctions. Thereafter, levels of funding are increased or decreased according to performance measures, including such things as revenue collection, participatory planning, and the quality and transparency of financing systems to their constituents. These funding modalities create incentives for leaders and stakeholders to govern well, to socially innovate, and to return outcomes.

In developing this approach for Indigenous organisations in Australia, it would be possible to operate a combination of general-purpose grants at the core (self-governance functions) and special-purpose grants at the margin (additional outcomes desired by governments in line with an organisation's objectives). As governance capacity is demonstrated, it should be possible to roll more of the special-purpose grants into the general-purpose grant, thus increasing the available pool of core funding, and decreasing the number of grants and associated administrative burden. Rather than using the terms and reporting requirements of special-purpose grants, desired outcomes could be expressed in terms of performance criteria for the general-purpose grant. Questions remain as to whether the flexibility to roll such special-purpose grants into core funding exists within the current financing system or if there is a need to change the rules around the manner in which money is appropriated from parliaments.

In 2013, the Australian Government centralised most of the Indigenous Affairs portfolio to the Department of Prime Minister and Cabinet. In the Commonwealth Minister's statement for the 2014 budget, the government committed to 'fix the bureaucratic mess' by replacing 150 programs into 5 broad program areas (Scullion 2014). The Minister was reported to say: 'we've got to stop the programs driving the agenda' … People in communities tell me, 'We would like to have more people out there on the program doing this, but we are all sitting in the office acquitting the program or exhausted reporting on it—we know that the reports never get looked at' (Karvelas 2014). The policy environment appears opportune to trial new public financing arrangements. Three examples are the regional *Empowered Communities* initiative (including the proposed Indigenous Policy Productivity Council), the Department of Finance's *Shared Outcomes* initiative, and the Queensland Government's efforts to move towards a performance-based-grant system for Indigenous local government authorities. In 2013 the Department of Finance instigated a proposed Shared Outcomes trial, seeking a model for standardising Australian Government cross-agency engagement on complex, intractable problems, including through the use of flexible or pooled funding arrangements. For more information on Empowered Communities see <http://cyi.org.au/empowered-communities>.

The Forrest Review signalled the change; 'under a system of trust and verification …it is now time for the Commonwealth to support wide community governance arrangements'. It recommends the Commonwealth Government be 'operating on a basis of trust and verification that ensures accountability to government and *community residents* through measures such as … recognising and rewarding good performance with earned autonomy, increased scope of decision making and greater flexibility'(Forrest 2014:55).

Conclusion

Indigenous organisations and authorities in remote Australia serve scattered, low-density communities in highly variable physical, socioeconomic and cultural environments with typically few commercially viable activities. In general, these organisations are overwhelmed by the demands placed on them by their constituents and their funders. The constraints of distance, coupled with vast differences in cultural outlook, mean these Indigenous organisations are disadvantaged in how they are understood, facilitated and supported in meeting their respective service delivery and governance obligations.

In such situations, whether in Australia or abroad, experience suggests that positive impacts can be achieved on key dimensions of accountability and outcomes by (1) progressively devolving authority, by (2) amalgamating rather than fragmenting grant systems, and by (3) introducing mutually agreed measures that are directly applicable to the activities and services being funded (and within the control of the funded organisation) to incentivise performance, backed by (4) credible and enforceable rewards and sanctions.

Devolution is no panacea; indeed, given the diversity of context, and the difficulties of backing innovative grant systems with the level of support that has proven necessary elsewhere, it is reasonable to expect some failure. But experience elsewhere also shows that seeing such contexts only through the lens of risk, deficit and chronic governance failure will most certainly undermine the prospect of local capability or accountability developing—ultimately undermining the possibility of improved outcomes for Indigenous people.

Appendix

Table A1 contains a list of Closing the Gap Clearinghouse issues papers and resource sheets related to this issues paper.

To view the publications, visit <http://www.aihw.gov.au/closingthegap/publications/>.

Table A1: Related Clearinghouse resource sheets and issues papers

Title	Year	Author(s)
Success factors for Indigenous entrepreneurs and community-based enterprises	2014	Morley S
Engaging with Indigenous Australia: exploring the conditions for effective relationships with Aboriginal and Torres Strait Islander communities	2013	Hunt J
Engagement with Indigenous communities in key sectors	2013	Hunt J
Improving the accessibility of health services in urban and regional settings for Indigenous people	2013	Ware V-A
Improving access to urban and regional early childhood services	2012	Ware V-A
Improving Indigenous community governance through strengthening Indigenous and government organisational capacity	2012	Tsey K, McCalman J, Bainbridge R & Brown C
Effective practices for service delivery coordination in Indigenous communities	2011	Stewart J, Lohoar S & Higgins D

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Abbreviations

ACCHO	Aboriginal Community Controlled Health Organisation
AIATSIS	Australian Institute for Aboriginal and Torres Strait Islander Studies
AIHW	Australian Institute of Health and Welfare
ANAO	Australian National Audit Office
ARLS	Advancement of Rights to Land and Sea
ATSI	Aboriginal and Torres Strait Islander (Act)
ATSIC	Aboriginal and Torres Strait Islander Commission
CAC	Commonwealth Authorities and Companies (Act)
CAP	Community Action Plan
CATSI	Corporations (Aboriginal and Torres Strait Islander) (Act)
CCT	Coordinated Care Trials
CDD	Community Driven Development
CDF	Community Development Fund
CGRIS	Coordinator General for Remote Indigenous Services
COAG	Council of Australian Governments
CDEP	Community Development Employment Projects
CPA	Community Participation Agreements
CYI	Cape York Institute
DEEWR	Department of Employment, Education and Workplace Relations
DEWR	Department of Employment and Workplace Relations
DFD	Department of Finance and Deregulation
DoH	Department of Health
DOHA	Department of Health and Ageing
EQHS-C	Establishment of Quality Health Standards Continuation
FAG	Financial Assistant Grants
FaHCSIA	(Department of) Families, Housing, Community Services and Indigenous Affairs
HRSCAA	House of Representatives Standing Committee on Aboriginal Affairs
IEDG	Indigenous Economic Development Grant
IRHD	Indigenous and Rural Health Division (Department of Health)

KPI   Key Performance Indicators

KWHB   Katherine West Health Board

LDF   Local Development Fund

LGA   Local Government Authorities

MBS   Medicare Benefits Scheme

NACCHO   National Aboriginal Community Controlled Health Organisation

NAIDOC   National Aborigines and Islanders Day Observance Committee

NGO   Non-government organisation

NTRB   Native Title Representative Bodies

NTSP   Native Title Service Providers

OATSIH   Office of Aboriginal and Torres Strait Islander Health

ORIC   Office of the Registrar of Indigenous Corporations

PBC   Prescribed Body Corporates (also RNTBCs)

PBS   Pharmaceutical Benefits Scheme

PFM   Public Finance Management

PGPA   Public Governance, Performance and Accountability (Act)

PHC   Primary Health Care

PM&C   (Department of) Prime Minister and Cabinet

PNPM   Program Nasional Pemberdayan Masyarket Mandiri (National Community Empowerment Program)

RNTBC   Registered Native Title Body Corporate

RJCP   Remote Jobs Community Program

RRP   Revenue Replacement Program

RSD   Remote service delivery

SDRF   Service Development and Reporting Framework

SGFA   State Government Financial Aid (Program)

THS   Territory Health Services

TSRA   Torres Strait Regional Authority

UP   Union Parishads

VTEC   Vocational Training Employment Centres

WBACC   Wreck Bay Aboriginal Community Council

Terminology

Aboriginal Benefits Account: ABA administers statutory royalty equivalent monies calculated from royalties paid to the Australian Government from mining on Aboriginal land in the Northern Territory under the *Aboriginal Land Rights (Northern Territory) Act 1976*. According to FaHCSIA Budget Portfolio Statement, $103 million was allocated to the ABA via a special appropriation in 2012–13. ABA funds are distributed to the 4 Northern Territory land councils for administrative purposes; to royalty associations for areas affected by mining; to the Office of Township Leasing for administration costs and rental payments associated with township leases; as grants for the benefit of Aboriginal people living in the Northern Territory; and to meet expenses associated with administering the ABA.

Accountability: Three forms of accountability may be distinguished: (1) primary 'downward' accountability, between elected representatives and citizens, (2) horizontal accountability, between administrative units at the same sub-national level, and between the representative or governing body and the administration, and (3) vertical accountability in the observance of national laws and regulations, national programs and policy priorities (including inter-governmental accountability between Commonwealth, state and local levels).

Appropriation: An amount of public monies the parliament authorises the Australian Government to withdraw from the Consolidated Revenue Fund and expend for specified purposes.

Block funding: Where an organisation is funded through a single grant with a single reporting framework—including as a proportion or in its entirety—to fulfil its core governance function, as defined below. Generally, block funding is provided via an untied general-purpose grant, but it can also be provided through a tied specific-purpose grant (defined below).

Community-driven development (CDD): Broadly defined as giving control of decisions and resources to community groups. With a view to sustainable and wide-ranging impacts, CDD operations and regional strategies have increasingly embraced two important pillars of sustainability and scale: linking communities to the private sector and to local governments (Kuper 2004:1).

Core governance function: The governance responsibilities an organisation/agency accumulates in accordance with its mandate and legal obligations—which are frequently framed in terms of the three dimensions of accountability, noted above.

Decentralisation: Formal ceding powers, authority and resources by central government to actors and institutions at lower levels in a political–administrative territorial hierarchy. The three types of decentralisation are defined below: deconcentration, devolution and privatisation (Yuliani 2004).

Deconcentration (or administrative decentralisation): Involves transfer of power to local offices of central government agencies and contracted agencies, while retaining strong 'upwards' accountability to higher-level political authorities. Typically, deconcentration does not involve subjecting local administrations to local political representation.

Devolution (or political decentralisation): The transfer of decision-making powers to formal political structures that are principally accountable 'downwards' to citizens and have correspondingly control over administrative authorities.

General-purpose grant: Untied grants that can be used at the discretion of the grantee organisation for general purposes, to allow it to fulfil its core governance function and/or carry out core functions in line with its mandate.

Governance: Refers to how power is exercised by authorities and organisations whose legitimacy is recognised in law, to make and apply rules, mobilise and manage resources and respond to public choices/demands within its mandated functions. Australian government policy suggests that good governance is advanced through 5 principles (openness, participation, accountability, effectiveness and coherence).

Indigenous: 'Aboriginal and Torres Strait Islander' and 'Indigenous' are used interchangeably to refer to Australian Aboriginal and/or Torres Strait Islander people. The Closing the Gap Clearinghouse uses the term 'Indigenous Australians' to refer to Australia's first people.

Indigenous organisations: This term is used to encapsulate a wide range of Indigenous bodies funded by governments to provide services and public goods to predominantly Indigenous populations. In this paper this term includes community-controlled organisations, statutory authorities, elected local governments and other member-based organisations.

Indigenous authorities: Agencies acting within an identifiable jurisdiction under a legislated framework for the purpose of furthering Indigenous development—including statutory authorities and elected majority-Indigenous local governments. Considered as a type of Indigenous organisation for the purposes of this study.

Modality: Includes (1) policies and instruments that structure how funding is delivered, aligned with priorities and made effective, (2) the administrative, financing and accountability arrangements that deliver funding, and which (3) enable investments to be made in local service delivery, governance and local development.

Outcomes: Desired results, impacts or consequences for the Australian community influenced by the actions of the governments and organisations funded or contracted by governments.

Portfolio Budget Statements: Explain how monies included in the Appropriation Bills (Budget Bills) are to be spent.

Public finance: The funds that governments make available to spend on behalf of the public (in purchasing and providing public goods) that are derived from taxes, borrowings and income generated through public assets.

Privatisation or market decentralisation: Involves decentralising resources and powers to the private sector, primarily through contractual arrangements.

Regulation: 'A regulation' is an official legal restriction promulgated by government that is supported by threat of sanction for acts of non-compliance. Regulations are legal instruments that articulate higher laws. A 'regulation' may articulate a statutory law.

Revenue sharing or general revenue sharing: The practice of a government giving a portion of tax revenue to lower levels of government for general purposes; primarily from the Commonwealth to the states/territories.

Special-purpose grants: Tied grants made for policy purposes related to particular functional activities—for example, health and education. Special-purpose grants can also be tied to core governance functions.

Sector: A grouping of institutions according to their functional alignment (for example, health) that transcends a single dominant government agency, incorporating multiple levels of government (Commonwealth, state and local) and other departments (for example, health promotion in schools), private enterprise (for example, clinics) and non-government agencies (for example, community-controlled health services).

Subsidiarity: Refers to the principle that a central authority should have a subsidiary function, performing only those tasks that cannot be performed at a more local level.

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Funding

Suggested citation

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