



PUBLIC ACCOUNTS COMMITTEE

*A Matter Arising from the
Auditor-General's Reports to Parliament for 1999*

Cost Control in the Department of Juvenile Justice



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Charter

The Public Accounts Committee has responsibilities under the Public Finance and Audit Act 1983 to inquire into and report on activities of government that are reported in the State's Public Accounts and the accounts of the State's authorities.¹ The Committee, which was established in 1902, scrutinises the actions of the Executive Branch of Government on behalf of the Legislature.

The Committee recommends improvements to the efficiency and effectiveness of government activities. The sources of inquiries are the Auditor-General's reports to Parliament, referrals from Ministers and references initiated by the Committee. Evidence is primarily gathered through public hearings and submissions. As the Committee is an extension of Parliament its proceedings and reports are subject to Parliamentary privilege.

Members of the Committee

The Committee comprises members of the Legislative Assembly and assumes a bi-partisan approach in carrying out its duties.

Chairman: Joseph Tripodi MP, Member for Fairfield

Vice-Chairman: The Hon. Pam Allan MP, Member for Wentworthville

Members: Ian Glachan MP, Member for Albury
Katrina Hodgkinson MP, Member for Burrinjuck
Richard Torbay MP, Member for Northern Tablelands
Mr Barry Collier MP, Member for Miranda

¹ See Part 4 of the Act – The Public Accounts Committee



Committee Secretariat

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Chairman's Foreword

The Auditor-General reports to Parliament each year on the results of audits of the accounts of authorities of the State and the State's public accounts.

The matter of Cost Control in the Department of Juvenile Justice was raised in the *Auditor-General's Report to Parliament for 1999 - Volume Two*.²

It was the Committee's desire to be informed about on-going financial management issues involving the Department and Treasury.

The Inquiry by the Committee has been brief and focussed on the findings presented in the audit report.

The Committee sought and considered the views of the relevant authorities and has provided recommendations for improved financial management and accountability.

The Committee heard evidence from representatives of the Department of Juvenile Justice on 4 May 2000 and evidence from representatives of the Audit Office on 5 May 2000.

The Committee also sought a submission from the NSW Treasury in relation to matters raised at the hearings.

The Committee thanks the representatives of the agencies for their co-operation and expert input.

Joseph Tripodi MP
Chairman

² See pages 205-211; the Audit Report was presented to Parliament on 10 November 1999.



EXECUTIVE SUMMARY

The Issues

The Auditor-General's report of November 1999 raised concerns over:

- the effectiveness of financial management within the Department, as budgetary targets had not been met; and
- variations in financial and operational indicators that could not be readily explained and were 'prima facie' evidence of inefficiencies in the Department.

In evidence to the Committee, Department representatives queried the analysis of indicators by the Audit Office. The Department considered like had not been compared with like, and also detailed improvements being supported by the implementation of a new information system. It advised that a lack of financial discipline in the Department could be partly explained by inadequate budgets being provided by Treasury over the last eight years. The Committee came to the view that the inadequate budget allocation by Treasury sustained a lack of discipline within the Department by creating the expectation of supplementary budgetary relief during the financial year – an expectation that was realised annually for the last eight years.

The Treasury in its submission to the Committee stated that the Department has attributed much of its budget problems to an insufficient funding base from its inception and inflexibility of detention centre budgets because of the high level of fixed costs. Treasury stated that the Minister for Juvenile Justice has agreed to form a finance committee within the Department with representation from Treasury, and that it expects reduced funding demands due to progressive reductions in detainees and improved financial management.

Conclusion of the Inquiry

The requirement for significant supplementary budgets for the Department over the last eight years reflects poorly on both the Department and Treasury.

Financial/management systems currently being implemented by the Department should enhance performance monitoring and accountability.



However, an improved alliance between the Department and Treasury is required to avoid the continuation of significant budget supplementation. The recent introduction of monthly finance committee meetings, inclusive of Treasury representation, should help future budgeting processes. This move is an admission of past misunderstandings between the two agencies and is a welcomed initiative.

Central to an improved working relationship between the Department and Treasury is a better understanding of the key budget and service delivery determinants by both agencies. Accountability for this improvement would be assisted by including indicators in the Department's Program Statement (in the State Budget papers) that specifically link budget and operational performance. This approach should be an integral part of the Service & Resource Allocation Agreements being developed by Treasury to be applied to agencies by the 2002-2003 Budget. It should reflect a collective ownership of budget related indicators.

However, the Committee believes that the situation illustrates reservations it has about the capability of performance indicators to be a proper and useful measure of performance.

In the case of the Department of Juvenile Justice, budget related performance indicators were not considered relevant and were not applied. Performance indicators can easily become redundant as agency structures and strategic directions change. Their existence may generate an excessive reliance on them, may generate a non-optimal allocation of resources to the task measured by the indicator (by creating the incentive to appear as good performance) and create a disincentive for an organisation to change with the demands of the public. Any shift of resources away from those measured activities towards new and needed services would actually appear as a deterioration in performance rather than an improvement. Performance indicators are also unlikely to effectively represent all agency activities. Benchmarks are also difficult for many public sector service delivery agencies.

The Committee recognises that expenditure related to some activities of government are more difficult to budget for. This would definitely be the case for the Department of Juvenile Justice. Nonetheless, this does not reduce the requirement to achieve more accurate budget allocations and the Committee remains concerned that the degree of co-operation that this challenge has required was not achieved between the agencies.



Recommendations

The Committee recommends that –

- the effectiveness of the Department of Juvenile Justice’s program statement and management should be improved by:
 - expanding the number of programs to better reflect its operations and management focus
 - updating output and outcome indicators applied within those programs by reference to the indicators outlined in the Council on the Cost of Government’s Report into *Law Order and Public Safety* and with reference to its own improved internal reporting
- Treasury and budget dependent agencies, such as the Department of Juvenile Justice, should, each year, sign-off on an approach to be applied to monitoring and revising annual budgets, in effect compelling more effective communication between them. Budget related indicators should be included in the agencies’ Program Statements that are in the State’s Budget Papers.



CHAPTER 1

1.1 The Audit Report and Agency Responses

Audit Office

The significant issues raised in the Auditor-General's Report were:

- large variations in a number of financial and operational indicators could not be readily explained and were 'prima facie' evidence of inefficiencies in the Department, for example
 - an increase in employee related expenses per detainee
 - significant variations in the cost of meals per detainee between centres
 - significant variations in the costs of meals per detainee between clusters³
- less than fully effective financial management within the Department, as
 - “... all of the Department's Clusters (Branches) failed to meet their budgetary targets ...”.⁴

In evidence provided to the hearing into the matter, representatives of the Audit Office confirmed these key issues.

1.2 *Department of Juvenile Justice*

In response to the above audit report findings, the Department's representatives informed the Committee that:

- the indicators reported by the Audit Office did not compare like with like (for example, costs per detainee for large maximum security centres are unfavourably compared with those for small low security facilities) and that the benchmarking of the activities was difficult at the time because of poor management information systems;
- there has been perennial underfunding of the Department - over the past eight years, all budgets have required significant supplementation towards the end of the financial year;
- “There is a culture of some dated managers in the organisation that says, ‘Why should I try because I know the money is insufficient and I know that Treasury will bail us out at the end of the year?’ ... It is very difficult

³ Ibid, see pages 208

⁴ Ibid, page 208



in terms of accountability when what that manager says comes true. In other words, I can talk to them and the Director of Operations can talk to them all the way through the year, hold them accountable, get reports from them, provide them with information when we know and they know that it is insufficient, but you cannot hold managers accountable if you know that you have not given them sufficient money”⁵ ; and

- Treasury points to a reduction in the number of juveniles in detention as a reason for reducing cost; however, there is no such “straightline relationship” - a similar number of juveniles are managed each year but through different means such as youth justice conferencing; in addition, Juvenile Detention Centres have high fixed costs and it is difficult to manage variable costs due to the volatile numbers and nature of inmates.

1.3 Treasury

At the request of the Chairman, Treasury provided a submission to the Committee on 20 June 2000. The Treasury submission included the following comments:

- the Department has attributed much of its ongoing budget problem with an insufficient funding base since its inception in 1991;
- recent reports by the Auditor-General and the Council on the Cost and Quality of Government have highlighted serious deficiencies in the financial operations of the Department;
- the Minister for Juvenile Justice has recently agreed to establish a monthly finance committee meeting, with Treasury representation, with an aim of improving financial management practices;
- despite a significant increase in the number of detainees in the first half of the 1990’s, followed by a decline of approximately 30% since 1995-96, funding has not decreased; the Department has indicated that most detention centre costs are fixed and cannot be reduced unless a wing or centre is closed; and
- it is expected that with the progressive reduction in detainee numbers and improved financial management that there will be a reduction in future funding demands.

⁵ Mr Robert Hermann, Director Corporate Services in answer to a question from Mr Richard Torbay: “Are you saying, given the fact that the Department is underfunded, that the budgets are basically a waste of time? How does that link with accountability?”



In relation to the integration of budget and operation indicators into a performance based approach, Treasury is to develop and implement Service and Resource Allocation Agreements with all budget dependent agencies by the 2002-2003 Budget. Specifically the Agreements are to outline:

- the services and goods which will be delivered by the agency over the course of the year and the standards to which they will be delivered;
- the costs of major outputs;
- the desired Government outcomes that the services are designed to achieve; and
- a specification of the major strategies to achieve the agency's and the Governments' objectives, including strategies to manage major risks.⁶

⁶ See page 16 of the NSW Treasury *1999 Annual Report*



CHAPTER 2

2.1 Budget and Financial Management Issues

The levels of recurrent budget allocation and supplementation since the Departments inception is provided in the following table.

\$m	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Recurrent Budget Allocation	40.5	43.2	53.9	64.4	68.7	70.3	78.8	76.7
Supplementation	3.0	5.0	4.7	4.4	1.4	4.1	3.1	10.7
Supplementation/ Budget	7%	12%	9%	7%	2%	6%	4%	14%

Source: Documentation provided by Treasury and Department; excluded from the Table are adjustments relating to the funding of specific initiatives, for example, White Paper and Drug Summit initiatives.

In evidence provided to the Committee, there was recognition of the reasons, or cost drivers, behind the budget supplementation. These included:

- detention centres having high fixed costs and remaining labour intensive despite variations in levels of detainees, and
- significant shifts in the focus of treatment of offenders in the community, away from institutionalised methods, such as youth justice conferencing and community grants.

There was also recognition that the Department's new integrated management information system must support better internal financial management.

However, despite signs of increasing understanding and information improvements, there has been significant supplementation of the Department's recurrent budget in recent years, consistent with trends since 1992.



2.2 Improving the Management of Performance

The Department's one, and only, program, Juvenile Justice, is presented in the Budget Papers⁷ and, as is required, provides a number of outcome and output indicators of its performance over the past three years.

The Council on the Cost of Government in its 1997 Service Efforts and Accomplishment Report *Law Order and Public Safety* presented a more comprehensive set of output and outcome indicators.⁸

In addition, the Department is now producing internal monthly reporting with more extensive benchmarking of operations, including cost indicators of operational activities. This should support improved financial management and performance assessment.

During the course of the Inquiry, the Department and Audit Office indicated the need for revision of the Department's program indicators. The development and application a Service and Resource Allocation Agreement between Treasury and the Department should help facilitate this process.

However, the Committee recognises that too much is often expected of performance indicators, particularly in public sector service providing organisations where benchmarks are not readily available. In these circumstances, numerative indicators can have a limited applicability as a means of accounting and assessing performance.

Performance indicators can easily become outdated and not relevant to an agency's changing structures and strategic directions. They can also become the focus of too much management attention, driving ineffective and inefficient behaviour. Furthermore, performance indicators are unlikely to capture all of what an agency does and create an incentive to calcification of the agency's services. This would be of concern in an environment where flexibility in the kinds of services and the means of delivery is demanded by a continually changing community.

In the case of this Inquiry, performance indicators linking budgets to operations were not seen as relevant by both parties and therefore not effectively applied. Additionally, information systems were unable to provide relevant information.

⁷ See NSW State Budget Paper 3 for 1999-2000, page 12-7

⁸ See Chapter 7 – Supervision of Remanded and Convicted Juveniles, page 85



2.3 In summary:

The on-going supplementation of the Department's recurrent budget allocation reflects poorly on the financial management of both the Department and the planning and monitoring of Treasury.

Contributing to the significant budget variations is an inability of the agencies to understand and agree on the underlying factors that link budget and operational performance. The agencies need to work closer together to control budgets more effectively.

However, it may be necessary to accept that in some activities of government it may not be possible to accurately anticipate expenditure making the activity difficult to budget for. Nonetheless, more effort should be made to achieve accurate budget allocations.