

Performance Audit Report No. 25 (2013-14)

Management of the Building Better Regional Cities Program

Introduction

- 3.1 Chapter 3 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of the Australian National Audit Office (ANAO) Report No. 25 (2013-14) *Management of the Building Better Regional Cities Program*. The chapter comprises:
- a report overview
 - audit objective and scope, summary of audit outcomes and ANAO recommendations
 - Committee review
 - Committee comment

Report overview

- 3.2 The previous Rudd-Gillard Labor Government introduced three significant affordable housing programs for low and moderate income households. One of these, the \$200 million Building Better Regional Cities (BBRC) program was the subject of this audit. BBRC was announced in July 2010 to help build up to 15,000 more affordable homes in regional cities over three years.¹

¹ ANAO Audit Report 25 (2013-14), p. 11.

- 3.3 The objective for the BBRC program was:
- to invest in local infrastructure projects that support an increase in the number of homes for sale and rent that are affordable for working families on ordinary incomes, in communities that are experiencing positive jobs and population growth that need more homes to be built.²
- 3.4 The program involved awarding funding through a competitive application process for local infrastructure projects (such as connecting roads, bridges, upgrades to drains and community centres) that would support new housing developments. Grant applications were required to demonstrate how low to moderate income earners would benefit as a result of upfront development costs being borne by the Australian Government. This included providing assurance to demonstrate how benefits would be passed on to purchasers.³
- 3.5 The then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), now the Department of Social Services (DSS), was initially responsible for the design and implementation of the BBRC. In September 2010 the responsibility for the program was transferred to the then newly created Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC), now the Department of the Environment (Environment). The effective transfer of responsibility for the program between the two departments, including the associated resources, occurred on 28 October 2010. Environment was responsible for the establishment and design of the program and also commenced the assessment of grant applications.⁴
- 3.6 In mid-December 2011, the administration of the BBRC Program transferred back to the DSS. The department's first task was to complete the assessment of applications, and prepare funding recommendations for Ministerial consideration. The department was also responsible for monitoring and reporting of the performance of the various housing affordability programs.⁵
- 3.7 Funding was halved in the May 2011 Budget to \$100 million as one of a number of spending cuts made to assist in meeting the expected cost of rebuilding of flood-affected regions. As a consequence, rather than

2 ANAO Audit Report 25 (2013-14), p. 11.

3 ANAO Audit Report 25 (2013-14), p. 11.

4 ANAO Audit Report 25 (2013-14), p. 12.

5 ANAO Audit Report 25 (2013-14), p. 12.

building up to 15,000 more affordable homes, the program target was to be proportionally reduced to 'help build up to 8,000 additional homes'.⁶

Audit objective and scope

- 3.8 The objective of the audit was to assess the effectiveness of the design and conduct of the funding round for the BBRC Program. The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grant administration framework, including the Commonwealth Grant Guidelines (CGGs) and ANAO's grants administration Better Practice Guide.⁷

Summary of audit outcomes

- 3.9 The ANAO reported that BBRC's implementation gave insufficient attention to the program's objective, the related key performance target (8,000 additional more affordable homes), program guidelines and value from the expenditure of public funds. Rather, emphasis was given to spending the program's \$100 million budget, despite the recommended applications being expected to deliver less than 3,200 additional homes (60 per cent below the program target), and that most of the applications had been assessed by the department to lack sufficient merit and/or not providing value for money.⁸
- 3.10 The ANAO found that this situation was compounded when unpublished eligibility criteria were applied, and projects were limited to one per local government. This denied funding to some of the better credentialed applications, and increased the amount of BBRC program funding to be awarded. The result was that \$113.8 million was awarded to 17 projects that were expected to provide up to 3,875 subsidised lots/dwellings, a figure less than half the targeted amount from a \$100 million program. Furthermore, only four of the approved applications were assessed to have adequately met at all of the published merit criteria.⁹

ANAO Recommendations

- 3.11 Table 3.2 sets out the recommendations for Audit Report No. 25.

6 ANAO Audit Report 25 (2013-14), p. 11.

7 ANAO Audit Report 25 (2013-14), p. 14.

8 ANAO Audit Report 25 (2013-14), p. 15.

9 ANAO Audit Report 25 (2013-14), p. 25.

Table 3.2 ANAO Recommendations Audit Report No. 26 (2013-14)

1	<p>ANAO recommends that the Department of Social Services emphasise the importance of obtaining value for money outcomes in the administration of grant programs by clearly identifying in advice provided to decision-makers:</p> <p>(a) the extent to which the population of recommended projects are expected to deliver results that are consistent with the overall program objectives and related performance targets; and</p> <p>(b) the merits of not awarding some or all of the available funding where a shortfall in program performance is expected.</p> <p>DSS' response: <i>Agreed.</i></p>
2	<p>To adopt a greater outcomes orientation in the administration of future grant programs the ANAO recommends that the Department of Social Services:</p> <p>(a) at an early stage of program design, develop and endorse an evaluation strategy that is proportional to the significance of the program; and</p> <p>(b) reflect key program design parameters and targets in published key performance indicators and report against these.</p> <p>DSS response: <i>Agreed.</i></p>

Committee review

3.12 Representatives of the following agencies gave evidence at the Committee's public hearing on Thursday 26 June 2014:

- Australian National Audit Office
- Department of the Environment
- Department of Social Services

Overview of the funding round

3.13 As a competitive grants program, the published program guidelines included five assessment criteria. The guidelines had emphasised the role that the assessment criteria were to play in securing the desired outcomes and value for money.¹⁰

3.14 There were 47 councils across six states and the Northern Territory identified as eligible to apply for BBRC funding; DSS engaged with and encouraged eligible councils to apply for BBRC program funding. Applications opened on 7 October 2011 and closed on 18 November 2011. A total of 43 applications were submitted by 36 councils (seven councils submitted two applications).¹¹

3.15 The ANAO reported that, consistent with sound grants administration practice, DSS developed a merit list that ranged the eligible applications in

¹⁰ ANAO Audit Report 25 (2013-14), pp. 12-13.

¹¹ ANAO Audit Report 25 (2013-14), pp. 12 & 36.

terms of their overall merit assessment score, as well as scores awarded against each of the five merit criteria. The ANAO stated that the assessment methodology developed for the BBRC funding round was sound.¹²

- 3.16 Funding recommendations were provided by DSS on 27 March 2012 to the then Minister for Housing and Homelessness. The Department recommended that a total of \$100 million be awarded to 15 applications from 13 councils. The then Minister for Housing and Homelessness did not accept this recommendation and sought further information before making his funding decisions.¹³ Ms Hand, Deputy Secretary of DSS, explained that:

When the department first submitted its recommendations for 15 projects to the minister, the minister decided that he would like the department to look at socioeconomic disadvantage factors and take that into account in the selection process and also, as you said, to focus on one council in each region as opposed to more than one council. So the department did some further analysis of the socioeconomic disadvantage factors based on what we call the SEIFA scores and resubmitted a minute to the minister to help him in making decisions about which projects to be funded.¹⁴

- 3.17 A further briefing package on the BBRC was provided to the then Minister for Housing and Homelessness on 2 May 2012 and for each of the 22 highest ranked projects, the department identified those projects that were the second priority of the applicant as well as those where the SEIFA score exceeded 1000.¹⁵

- 3.18 At the Committee hearing, DSS representatives referred to the department's advice to the then Minister regarding SEIFA scores:

Our recommendation was that it was not consistent with the guidelines. It was not our recommendation, it was our observation. We did not make a recommendation about it. ... we made it clear that using SEIFA scores was not consistent with the program guidelines.¹⁶

- 3.19 The briefing further recognised that geographic spread of funding was not a published criterion for the award of funding, however DSS indicated to

12 ANAO Audit Report 25 (2013-14), pp. 57-60.

13 ANAO Audit Report 25 (2013-14), p. 13.

14 Ms Felicity Hand, DSS, *Committee Hansard*, Canberra, 26 June 2014, pp. 2-3.

15 ANAO Audit Report 25 (2013-14), p. 73.

16 Ms Hand and Mr Palmer, DSS, *Committee Hansard*, Canberra, 26 June 2014, p. 3.

the Minister that he may wish to consider only funding one project from each council.¹⁷

- 3.20 After receiving the further briefing, and following agreement from the then Prime Minister of additional funding for the program, the Minister awarded 17 grants totalling \$113.79 million to 17 councils on 4 May 2012.
- 3.21 Funding was approved for 12 of the 15 applications that had been recommended earlier by the department as well as a further five applications that the department had assessed as being less meritorious than those it recommended. The five applications not recommended by the department but approved by the Minister had been assessed as offering 'marginal' value for money for the BBRC funding sought, and had also been assessed as not adequately meeting at least two (and in one instance, each) of the five merit criteria.¹⁸ (See Table 3.1 below)¹⁹
- 3.22 It should be acknowledged that of the 15 applications recommended by the Department:
- 11 had been assessed as not adequately meeting one of the five merit criteria
 - 7 had been assessed as not adequately meeting two of the five merit criteria
 - 3 had been assessed as not adequately meeting three of the five merit criteria²⁰
- 3.23 The Department provided to the Minister recommendations in covering minute. Regarding grouping three within which the five additional applications approved by the Minister, the covering minute stated:
- You only consider applications from the third group with a requirement to improve the value for money to be delivered during the negotiation of the funding agreement.²¹
- 3.24 The Minister approved these five applications on the basis that the Department was to improve the value for money to be delivered during negotiation of the funding agreement.²² Mr Innis from DSS stated:
- It is fair to say that the Minister had the discretion to approve whatever project he felt was worthy, provided he explained his

17 ANAO Audit Report 25 (2013-14), p. 74.

18 ANAO Audit Report 25 (2013-14), p. 13.

19 ANAO Audit Report 25 (2013-14), p. 48. The table appears in the report as 'Table 2.2'

20 ANAO Audit Report 25 (2013-14), p. 58-59.

21 ANAO Audit Report 25 (2013-14), p. 68. This quote is drawn from Table 3.1 *Departmental funding recommendations: 27 March 2012*.

22 *Committee Hansard*, Canberra, 26 June 2014, p. 6 & p. 9.

rationale. This bit is certainly true, and he asked for the Department in negotiation to seek to increase the value for money proposition.²³

- 3.25 The ANAO stated that the value for money for four of the five projects in this category was improved. The ANAO also stated that reporting did not update the Minister as to the state of negotiations around value for money outcomes.²⁴

Table 3.1 Summary of characteristics required to be demonstrated

Criterion	Summary of characteristics required to be demonstrated
Criterion 1 Economic Growth, housing need and supply	<ul style="list-style-type: none"> ■ strong predicted economic and jobs growth and demand for housing; ■ land is available for housing; and ■ infrastructure will support the supply of lots and dwellings to assist meet the identified demand for housing.
Criterion 2 Infrastructure delivery and approvals	<ul style="list-style-type: none"> ■ demonstrate that projects will be delivered efficiently and cost effectively, including through good project planning; ■ proposals demonstrated to be 'investment ready' will be 'favourably considered' in the assessment process.
Criterion 3 Value for money and affordability	<ul style="list-style-type: none"> ■ project can be delivered at a reasonable whole-of-life cost; ■ demonstrate how low to middle income earners will benefit from the Australian Government meeting upfront development costs; and ■ contributions from other sources, or proposals that demonstrate further savings on top of BBRC funding are preferred over those that only pass on savings from BBRC funding.
Criterion 4 Good urban design and sustainability	<ul style="list-style-type: none"> ■ incorporates the principles of good urban design; and ■ environmental and sustainability measures will be incorporated into the design and construction of the development.
Criterion 5 Capacity and Compliance	<ul style="list-style-type: none"> ■ timely project delivery and within the nominated budget; and ■ qualified and skilled personnel, contractors, sub-contractors, management structure/governance arrangements in place.

- 3.26 The approval for \$2.05 million in funding for one application from Latrobe City Council was withdrawn in late June 2012, as the council was unwilling to provide any direct assistance for affordable housing. Accordingly, on 3 July 2012, the then Minister announced funding of \$112.1 million be provided to 16 of the 17 applications that were approved on 4 May 2012. In March 2013, two of the projects that had been approved for funding were terminated and withdrawn respectively (Wagga Wagga

23 Mr Sean Innis, Department of Social Services, *Committee Hansard*, Canberra, 26 June 2014, p. 6.

24 *Committee Hansard*, Canberra, 26 June 2014, p. 10.

and Wyong). The resulting savings allowed funding of \$12 million to then be approved for a further two projects, located in Ballina and Bunbury.²⁵

Departures from the program guidelines

Councils submitting more than one application

- 3.27 The program guidelines advised eligible applicants that they could submit up to three separate project proposals each and the amount of funding that could be awarded to each successful regional city was capped at \$15 million. Councils were to prioritise their project bids.
- 3.28 The two councils affected by the removal of lower priority projects were:
- Tweed Shire Council whose two applications were each assessed as 'high scoring' and were overall ranked second and third on the merit list. The application submitted had sought aggregate funding of \$8.94 million.
 - Ballina Shire Council whose two applications had been included in the second grouping of recommended projects and assessed as 'adequate value for money and affordability outcomes'. The application had sought aggregate funding of \$10.5 million.²⁶
- 3.29 At the Committee hearing, the ANAO stated:
- The approach taken was that councils were entitled to submit up to three applications. So to limit them to only one, after the event, meant that, in some cases, councils wasted their time and effort in putting together an application.²⁷

Councils with a SEIFA score above 1000

- 3.30 The BBRC program was announced in July 2010 to 'help build up to 15 000 more affordable homes in regional cities over three years and relieve pressure on our major capital cities, so that Australia can grow sustainably'. The ANAO reported that 'a key aspect of the BBRC program design, consistent with the original 2010 election policy announcement, was that funding would be available to specified regional cities. The program guidelines identified 47 councils eligible to apply for program funding, and they were encouraged to apply for funding.'²⁸
- 3.31 Following the Ministerial decision to exclude from funding consideration councils that had a SEIFA index score above 1000:
-

25 ANAO Audit Report 25 (2013-14), pp. 13-14.

26 ANAO Audit Report 25 (2013-14), pp. 75-77.

27 Mr Brian Boyd, ANAO, *Committee Hansard*, Canberra, 26 June 2014, p. 8.

28 ANAO Audit Report 25 (2013-14), pp. 11 & 80.

- seven of the 47 organisations listed as eligible to apply could not have been successful in being awarded funding
 - of those seven, six applied for funding (Gold Coast, Gladstone with two applications, Cairns, Kalgoorlie/Boulder, Townsville and Queanbeyan)
 - three applications were excluded solely on the basis of the council's SEIFA score being above 1000. This included Gold Coast City Council, Sunshine Coast Regional Council and Queanbeyan City Council.²⁹
- 3.32 Five applications which were not recommended by DSS but granted funding went to the following councils: Tamworth Regional Council, Lake Macquarie Regional Council, Maitland City Council, Wyong Shire Council and Latrobe City Council.
- 3.33 In referring to the five councils which received funding when they were not recommended by the department, Mr Innis from DSS stated:
- The projects were all ranked against the SEIFA index, and these projects, given the nature of the locations, would have been higher up the table, based on a SEIFA score analysis. So the minister's rationale, as I understand it, was that he was preferencing projects from low socioeconomic areas.³⁰

Committee comment

- 3.34 The administration of the BBRC program is disappointing by any standards. Perhaps the Auditor-General summed it up best:
- The awarded program funding in this manner has resulted in the BBRC program performing poorly in delivering the benefits envisaged when the program was announced. Specifically, the program is costing more than had earlier been budgeted, is delivering significantly less in the way of additional affordable housing than the program target, and many of the contract projects have been delayed in delivery.³¹
- 3.35 The reasons for the programs disappointing results are, according to the ANAO:
- insufficient attention to the program's objective to increase the number of affordable homes in regional cities

29 ANAO Audit Report 25 (2013-14), p. 81.

30 Mr Sean Innis, Group Manager, Policy Office, Department of Social Services, *Committee Hansard*, Canberra, 26 June 2014, p. 4.

31 Mr Ian McPhee, Auditor-General, *Committee Hansard*, Canberra, 26 June 2014, pp. 1-2.

- related key performance targets of delivering up to 8,000 additional more affordable homes
 - insufficient attention given to the program guidelines, which had outlined the five assessment criteria that were to be used to select these projects that best met the program objective and would deliver strong outcomes and represent value for money
 - insufficient attention to the importance of achieving value for the expenditure of public funds³²
- 3.36 The interaction between the department and the then Minister for Housing and Homelessness appears also to have contributed to the program's malaise.
- 3.37 Firstly, the Minister did not accept the department's recommendation to award funding to the original 15 approved projects. Eventually, the Minister awarded funding to 17 applications, 12 of which had been recommended earlier for funding by the department, and five that had not.
- 3.38 Secondly, unpublished eligibility criteria, that were not key design parameters of the program (approved and confirmed by the then Government), were applied by the Minister and this resulted in funding not being approved for three recommended applications.- A further two (lower ranked) applications were excluded from the possibility of being awarded funding; and the five not recommended but approved applications had been assessed as offering 'marginal' value for money. The latter five were approved on the basis that the Department would improve the value for money outcome for the Commonwealth. The ANAO report stated:
- Approving funding for these applications was seen as necessary, otherwise a significant proportion of the available funding of \$114.5 million would not have been allocated.³³
- This should hardly be the basis of approval – approval should be given on a value-for-money basis.
- 3.39 Thirdly, there was some question as to the calculation of the 8,000 target number. According to testimony from the Department of the Environment, the 8,000 target came from an exchange of letters between the then Prime Minister and the then Minister. This figure was also not definitive, not proposed by the Department, and was proceeded by the caveat of 'up to'. The Department itself published a figure in the Portfolio

32 Mr Ian McPhee, Auditor-General, *Committee Hansard*, Canberra, 26 June 2014, p. 1.

33 ANAO Audit Report 25 (2013-14), p. 19.

Budget Statement of 2,000 dwellings by 30 June 2014 as a Key Performance Indicator– a significant deviation from the 8,000 figure in the correspondence between the then Minister and then Prime Minister.³⁴ So the target figure had a degree of flexibility built into it. However, this does not justify the BBRC's significant underperformance.

- 3.40 Finally, the fact that five grants that had not been recommended but had been approved should have been reported to the Minister for Finance. The Department has acknowledged this was an error to not advise the Minister for Finance.³⁵
- 3.41 The department was instructed by the then Minister to ensure value for money and adequate affordability outcomes in negotiating grant agreements. This was a challenging task for the department in the circumstances and the efforts achieved mixed results.³⁶ Indeed, the department described it as 'modest success'.³⁷

Recommendation 3

- 3.42 **The Committee recommends that both the Department of Social Services and the Department of the Environment conduct a full and frank review into the Building Better Regional Cities program, identify the areas of failure and produce a 'lessons learnt' brief for all staff members, and their successors, so as to mitigate the possibility of similar mistakes being made with future programs.**
- 3.43 Both departments' responses to the Committee's inquiry were disappointing and both appeared unprepared to adequately respond to the Committee's questions. Firstly, the public hearing offered both departments the opportunity to present an opening statement through which they could have presented their perspective on the decision making process, as well as a description of what procedures had been put in place to ensure better outcomes from future programs and, indeed, what steps could still be, or already had been, taken to ensure better outcomes for the BBRC expenditures already allocated. Both departments did not take this opportunity. Secondly, answers to even basic questions seemed beyond the departments' ability to answer. When pressed for the number of houses built under the program, the Department of Social Services could

34 *Committee Hansard*, Canberra, 26 June 2014, pp. 11-12.

35 *Committee Hansard*, Canberra, 26 June 2014, p. 14.

36 ANAO Audit Report 25 (2013-14), p. 19.

37 Mr Sean Innis, Group Manager, Policy Office, Department of Social Services, *Committee Hansard*, Canberra, 26 June 2014, p. 16.

not give a direct and unambiguous answer.³⁸ However, the Minister for Social Services reported to the House of Representatives later that day that only 247 dwellings had actually been built.³⁹

- 3.44 The Australian Public Service is well served by the Parliament, and there are at least two seminars available to senior public servants that can help prepare APS employees for appearances before Parliamentary Committees.⁴⁰ The Committee Secretariats also stand ready to assist in this regard and are easily contacted. All Departments – including that of Environment and Social Services – should avail themselves of the material and courses provided by the Parliament on how to prepare as a witness for public hearings.
- 3.45 Notwithstanding the above observations, the Committee notes that this program is ongoing in the sense that BBRC provides funding for the supporting infrastructure for the construction of affordable housing – not to build the houses themselves.⁴¹ It may be the case that the program's outcomes will show improvement as more houses are built using the infrastructure provided. The Committee would like to be kept informed of the program's progress and the ultimate number of new houses built over the term of the Parliament.

Recommendation 4

- 3.46 **The Committee recommends that the Department of Social Services continue to inform the Joint Committee on Public Accounts and Audit through correspondence about the status of housing built with the assistance of the Building Better Regional Cities program every 6 months for the life of the 44th Parliament.**

38 *Committee Hansard*, Canberra, 26 June 2014, pp. 10-11.

39 *Hansard*, House of Representatives, Canberra, 26 June 2014, p. 66.

40 Links to these seminars can be found at:
<http://www.aph.gov.au/About_Parliament/Senate/Public_Information_and_Events/Seminars_for_public_servants#estimate_process>

41 *Committee Hansard*, Canberra, 26 June 2014, p. 11.

Conclusion

- 3.47 The BBRC stands as the anti-example of how to run a grants program. Its administration was poor, its objectives poorly designed and changes to the grants criteria during the determination process only compounded what appear to be already existing problems.
- 3.48 The Committee noted the disappointing performance of both Departments at the public hearing. Opportunities to explain government programs should be welcomed by all departments so as to give confidence to the Australian public that their tax dollars are being prudently spent. On this occasion, however, the distance between actual and desired outcomes was cavernous.
- 3.49 Given the disappointing outcome, responsible departments and individuals should themselves learn from the experience and transmit that knowledge to their colleagues and their successors through suitable handover briefs.

