

The Design and Conduct of the Third and Fourth Funding Rounds of the
Regional Development Australia Fund

Audit Report No.9 2014–15

Opening Statement by Auditor-General

JCPAA Review 6 March 2015

1. Good morning Chairman and committee members.
2. A key message from ANAO audits of grant programs over the years, and highlighted in ANAO's grants administration Better Practice Guides, is that selecting the best grant applications that demonstrably satisfy well-constructed selection criteria promotes optimal outcomes for least administrative effort and cost. Another recurring theme in the ANAO's audits of grants administration has been the importance of grant programs being implemented in a manner that accords with published program guidelines so that applicants are treated fairly.
3. The Regional Development Australia Fund (RDAF) was established in early 2011 as a nationally competitive, merit-based grants program open to local government and eligible not-for-profit organisations. I wish to emphasise the program was intended to be competitive and merit based.
4. The ANAO previously undertook a performance audit of the first funding round of RDAF (Audit Report No. 3 2012–13), with the third and fourth rounds being the focus of our recently tabled 2014–15 report. The then Department of Regional Australia, Local Government, Arts and Sport (DRALGAS) was responsible for the design and implementation of the third and fourth rounds. In addition, the 55 Regional Development Australia (RDA) committees were involved in the selection

of priority projects at the expression of interest stage, and an independent RDAF Advisory Panel was responsible for assessing and recommending projects for funding to the Minister at the full application stage. Administrative responsibility for the program later moved to the Department of Infrastructure and Regional Development in September 2013.

5. A key conclusion of the audit was that there was not a clear trail through the various assessment stages adopted in rounds three and four to demonstrate that the projects recommended for funding, and those ultimately awarded funding, had the greatest merit in terms of the published selection criteria. In particular, the order of regional priority allocated to projects by the RDA committees was not used to inform the assessment of applications, and there was not a clear and consistent alignment between the RDAF Advisory Panel's funding recommendations and the results of the department's assessment of each application against each of the published selection criteria. While the ANAO has no fundamental issue with the Advisory Panel reaching a different view to the department as to the individual or relative merits of applications, at issue is that the panel did not then document an assessment of each application against each selection criterion to support or explain its recommendations. This approach, combined with the panel's meeting minutes not otherwise adequately outlining the rationale for decisions taken, means that the demotion of some projects and promotion of others compared with the only recorded ratings awarded against the selection criteria (being the department's) was unexplained.

6. Further, a relatively high proportion of the funding decisions made by the then Minister for Regional Services, Local Communities and Territories differed from the panel's recommendations. The then Minister approved 88 of the 129 applications that had been recommended for funding by the panel across rounds three and four, and so rejected the other 41 applications. In addition, the then Minister approved 33 applications that had not been recommended for funding, of which 10 had been categorised as 'Suitable for Funding' and 23 had been categorised as 'Not Recommended for Funding' by the panel. Therefore, 27 per cent of the applications approved (representing 48 per cent of the \$226 million awarded) had not been recommended for funding by the panel.
7. While it is open to a Minister to reach a decision different from that recommended by a panel or department, it is important that the rationale for such decisions be documented and be consistent with the published program guidelines and with any other applicable Commonwealth policies and legislation. However, where the then Minister's funding decisions diverged from the panel's recommendations in rounds three and four, the recorded reasons did not refer explicitly to the published selection criteria and generally provided little insight. This situation was particularly significant given that such decisions were largely at the expense of projects located in electorates held by the Coalition.
8. In order to improve the design and conduct of future competitive granting activities, the ANAO made three recommendations in the audit report. These were directed at improving the efficiency of two-stage grant application processes, the rigour of value with public money assessments, and the quality and clarity of advice provided to

Ministers to inform their decisions about the relative merits of proposals competing for grant funding.

9. ANAO had also made three recommendations in the audit report of the first funding round which, while agreed by the department at the time, were not then fully implemented. Closer adherence to implementing ANAO recommendations and relevant aspects of the grants administration framework warrants greater attention by the department.
10. The audit team and I would be happy to answer any questions the Committee may have.