

Audit Report No. 03 2010-11

The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program

Introduction¹

- 3.1 The onset of the global financial crisis in 2008 caused a severe loss of confidence, not only in the financial sector, but also in households and businesses around the world. The result was a period of global economic downturn and a prospect of rising unemployment in many countries.
- 3.2 In response, many governments around the world have adopted fiscal measures to support employment and economic recovery. Domestically, the Australian Government announced a series of stimulus measures in late 2008 and early 2009. Included in these was the Regional and Local Community Infrastructure Program (RLCIP).
- 3.3 The RLCIP is administered by the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG). Its

1 The following information is taken from Audit Report No. 03 2010-11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, pp. 13-19.

establishment had been announced in the May 2008 Budget, to replace from 2009-10 the Regional Partnerships Program, which had been subject to a report by the ANAO in November 2007.²

- 3.4 Also in May 2008, the Minister for Infrastructure, Transport, Regional Development and Local Government asked the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government (the House Standing Committee) to investigate and report on options for the new regional funding program. On 5 November 2008, the House Standing Committee tabled an Interim Report on its inquiry into a new regional development funding program. The Committee's decision to issue an interim report stemmed from the Government accelerating its nation building agenda in response to the global financial crisis. The Committee's intention was for the recommendations of the Interim Report to help inform government decision-making as the Government considered the manner in which it would distribute funds for regional infrastructure projects.³
- 3.5 On 12 November 2008, one week after the House Standing Committee tabled its Interim Report, the Government decided to establish a \$300 million RLCIP comprising:
- \$250 million allocated amongst all councils (referred to as the Council Allocation component); and
 - \$50 million to fund high priority infrastructure projects with a value of greater than \$2 million that would be selected through a competitive, application-based process (referred to as the Strategic Projects component).
- 3.6 The Strategic Projects component is the subject of this audit report. A separate performance audit of the Council Allocation component was tabled in May 2011.⁴

2 ANAO Audit Report No. 14 2007-08, *Performance Audit of the Regional Partnerships Program*, Canberra, 15 November 2007.

3 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding regional and local community infrastructure: Principles for the development of a regional and local community infrastructure funding program*, Final Report, June 2009, p. 1.

4 Audit Report No. 42 2010-11, *The Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Community Infrastructure Program*, was tabled on 18 May 2011.

Conduct of the 2009 application round

Initial call for applications

- 3.7 The initial call for applications for the first round⁵ of the Strategic Projects component was made on 21 November 2008, three days after the Program was announced. On that date, the Minister for Infrastructure, Transport, Regional Development and Local Government:
- released the Program Guidelines;
 - released the official timetable, which was intended to encourage local councils and shires to identify local projects as soon as possible so as to have funding released promptly;
 - announced that application forms for the \$50 million Strategic Projects component would be available (on the Department's website) later that day for projects seeking a minimum Commonwealth contribution of \$2 million or more; and
 - announced that complete applications must reach the Department by 23 December 2008.⁶
- 3.8 By 23 December 2008, DITRDLG had received 344 applications that sought some \$1.2 billion of Commonwealth funds for projects with an overall value of \$2.9 billion.

Program funding increased from \$50 million to \$550 million

- 3.9 In the context of the impact in Australia of the evolving global financial crisis, at its meeting on 28 January 2009, the Strategic Priorities and Budget Committee of Cabinet considered options to provide further economic stimulus through the Infrastructure, Transport, Regional Development and Local Government portfolio. Further discussion occurred after the Committee meeting between the Office of the then Prime Minister and the Office of the Minister for Infrastructure, Transport, Regional Development and Local Government. Subsequently, on 2 February 2009, the then Prime

5 In June 2009, the then Prime Minister announced additional funding of \$120 million for the Strategic Projects component of the RLCIP, to be made available through a second competitive process. Subsequently, on 9 October 2009, the Minister for Infrastructure, Transport, Regional Development and Local Government announced that applications for round two of the Strategic Projects component were open and were due by 15 January 2010.

6 The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Guidelines Released for \$300 million Regional and Local Community Infrastructure Program*, Media Release, AA180/2008, 21 November 2008.

Minister wrote to the Minister for Infrastructure, Transport, Regional Development and Local Government:

- confirming the allocation of an extra \$500 million over two years to the Strategic Projects component of the RLCIP, with \$250 million to be allocated in 2008-09 and \$250 million in 2009-10; and
- reiterating the 28 January 2009 decision that priority was to be given to projects that could proceed quickly and for which co-investment from councils and other partners, such as State and Territory governments, was proposed.

Applications re-opened

- 3.10 On 13 February 2009, the Minister for Infrastructure, Transport, Regional Development and Local Government announced that the Government had secured the passage of the \$42 billion Nation Building and Jobs Plan legislation, which included the additional \$500 million for the Strategic Projects component of the RLCIP. The Minister's announcement also outlined that:

The Government will give local councils and shires the opportunity to submit new or revised applications for the Regional and Local Community Infrastructure Program – Strategic Projects.⁷

- 3.11 In the context of the Strategic Projects component having been increased from \$50 million in available funding to \$550 million, the Minister's announcement advised that councils had until 4pm Australian Eastern Daylight Saving Time, Friday 6 March 2009 to submit new or revised applications. It was further announced that the existing Program Guidelines would continue to apply.
- 3.12 By the revised closing date, a total of 484 applications were received seeking \$2.05 billion in Commonwealth funding compared with the \$550 million that was available.

Successful applications

- 3.13 The decision about which applications were to receive Program funding was made by Cabinet, in a meeting on 22 April 2009. Cabinet agreed to the recommendations of the Minister for Infrastructure, Transport, Regional

7 The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Rudd Government Secures Extra \$500 Million for Local Community Infrastructure – No thanks to Liberal and National Parties*, Media Release, AA28/2009, 13 February 2009.

Development and Local Government that a total of \$549.672 million be approved for 137 projects.⁸ The successful projects were publicly announced over the course of April and May 2009. Funding Agreements for 136 of the projects were signed during June 2009, with a total of nearly \$230 million in program funds paid before 30 June 2009. The final Funding Agreement was signed in late July 2009.

- 3.14 In respect to the program context and way in which it was delivered, in June 2010 the Department advised ANAO that:

The program was implemented during the global economic crisis and the Government's response to the emerging crisis. Between September 2008 and the 2009 Budget, the government dealt with an unfolding global and economic crisis which required senior Ministers to re-consider and adjust policy and program settings as the impacts of the crisis became clearer. This included considering projects which would not only provide an immediate economic stimulus but also provide community infrastructure investment for the recovery post 2010-11. The program changed significantly as the Government, through successive consideration of stimulus measures, expanded the program from \$50 million to \$550 million and adapted the timeframes and approach to assessment and delivery of the program.

Legislative framework

- 3.15 The Strategic Projects component of the RLCIP is a discretionary grants program. Commonwealth grant programs involve the expenditure of public money and are thus subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property. This framework includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants, including those made under the Strategic Projects component.
- 3.16 While not affecting a Minister's right to decide on the allocation of grants, since December 2007, the financial framework applying to grants decision-

8 The total approved funding was subsequently reduced by \$117 000 to \$549 555 million, following the replacement of one of the approved projects with a different project, based on advice from the Minister for Infrastructure, Transport, Regional Development and Local Government to the then Prime Minister that there had been an error in the list of recommended projects provided to Cabinet.

making has been progressively enhanced. Two of the significant changes made on 14 December 2007 were to require that guidelines for any new grants program be considered by the Expenditure Review Committee of Cabinet; and Ministers were not to make any decisions on grants without first receiving departmental advice on the merits of each grant application relative to the guidelines for the program. These requirements remain in place.

- 3.17 In December 2008, prior to the re-opening of applications to the Strategic Projects component, the Government agreed to a range of measures to reform the administration of grants, including the development of an improved framework for grants administration. These decisions were made in response to the 31 July 2008 report of the *Strategic Review of the Administration of Australian Government Grant Programs* (Strategic Review of Grants). The Government's December 2008 decisions have now been reflected in the new policy framework for the administration of grant programs by agencies subject to the FMA Act that took effect from 1 July 2009.
- 3.18 Whilst the enhancements to the grants administration framework made in December 2007 applied to the design and implementation of the Strategic Projects component, the changes to the FMA Regulations and introduction of the Commonwealth Grant Guidelines (CGGs) occurred after projects had been approved for funding.

The ANAO Audit

Audit objectives

- 3.19 The audit was undertaken under section 18 of the *Auditor-General Act 1997*. The objective of the audit was to assess whether the Strategic Projects component of the RLCIP has been effectively designed and administered. Amongst other things, the audit examined the design of the Strategic Projects component; the processes by which applications were sought, assessed and successful projects approved for funding; and the extent to which timely economic stimulus has been provided through the funded projects.

Overall audit conclusion

- 3.20 In its overall audit conclusion the ANAO defined the objective of the Strategic Projects program:

The Strategic Projects component of the RLCIP was one of a number of programs introduced by the Australian government in response to the global financial crisis. Initially announced with funding of \$50 million, this was increased in January 2009 by a further \$500 million so as to increase stimulus spending in local communities as part of the Government's response to the global financial crisis. In addition to the intention of providing timely economic stimulus, the Program is also expected to provide longer term community infrastructure investment by funding additional projects not already underway, or additional stages of projects that were already underway.

The objectives of the RLCIP were to create local jobs and stimulate local economies in the short term and medium term. The Strategic Projects component was intended to contribute to this objective by directing funding towards a limited number of large strategic projects that were ready to proceed. Projects were to be allocated funding on a nationally competitive basis through an application process open to all local councils.⁹

- 3.21 The ANAO noted that despite a number of reports and reviews that have emphasised that 'potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines and selection documentation' the Department failed to implement prioritisation and shortlisting criteria.¹⁰ Further the ANAO found that the Department failed to outline the assessment criteria that would be used to select the successful applicants.¹¹
- 3.22 The ANAO found that the Department had undertaken a risk assessment of the shortlisted projects but had failed to advise the Minister on which projects met the program guidelines:

While the risk assessment results were provided to its Minister, the department did not provide recommendations to the Minister

9 Audit Report No. 03 2010-11, p. 20.

10 Audit Report No. 03 2010-11, pp. 20-21.

11 Audit Report No. 03 2010-11, p. 21.

about which projects should be approved within the available funding of \$550 million. This was a significant failing on the part of the Department given that, since December 2007, the enhanced grants administration framework has required departments to provide advice to Ministers on the merits of each grant application relative to the guidelines for the program.¹²

- 3.23 The ANAO found that on 21 April 2009, the Minister's Office advised the Department of a list of 137 projects, which with small variations was consequently endorsed by Cabinet, that had been arrived at on the basis of one or more of the following criteria:

- geographic distribution of projects;
- likely economic stimulus and community impact, drawing on population sizes, capacity within local government authorities, percentage of partnership funding, and nature of projects; and
- whether alternative funding sources are available or have been provided.¹³

- 3.24 The ANAO found that applicants were not made aware of these selection criteria and that the process had not been adequately documented:

Whilst not inconsistent with the Program objectives and the published Guidelines, these criteria had not been published or otherwise advised to councils and other stakeholders. Further, there was no documented assessment of each application against the three criteria outlining: the extent to which each application had been assessed as satisfying each criterion; the information relied upon in making the assessment; or an overall assessment and ranking of each competing application.¹⁴

- 3.25 With regard to the geographical distribution of the recommended projects, the ANAO concluded:

... whilst the total amount of funding provided a reasonable geographic spread and was largely consistent with the proportion of electorates held by the major parties and Independent members, in terms of the number of applications, projects located in electorates held by the Australian Labor Party (ALP) and Independent Members were more successful at being awarded

12 Audit Report No. 03 2010-11, pp. 21-22.

13 Audit Report No. 03 2010-11, p. 23.

14 Audit Report No. 03 2010-11, p. 23.

funding than those located in electorates held by the Coalition parties.¹⁵

3.26 Overall the ANAO concluded:

The Strategic Projects component was publicised as being a nationally competitive discretionary grants program to which all councils were eligible to apply. In this light, the distribution of grants in respect to those councils who had applied for funding, combined with the absence of a documented assessment of each application in terms of the three criteria [see paragraph 3.23], means that the basis on which decisions were made to include, or exclude, particular applications to fit within the budget allocation was not clear. In particular, the reasons for the selection of 131¹⁶ of the 188 shortlisted applications, and non-selection of 57, shortlisted applications, were not apparent from the program documentation or subsequent advice. The reasons for the selection of the additional six projects were documented, although in each case the documented reasons either involved the waiving of Program eligibility criteria (two applications) or were based on indications of considerations that were not included in the Program Guidelines as being relevant to the selection of projects (four applications).

To improve the transparency of grants approval processes,¹⁷ the financial framework applying to funding decisions for grants was subsequently enhanced by the Government with effect from 1 July 2009 to require decision-makers to record the substantive reasons for their approval, having regard for the relevant statutory

15 Audit Report No. 03 2010-11, p. 24.

16 Of the 137 projects approved for funding, 131 were selected from the list of applications shortlisted by the department and categorised as 'recommended subject to available funding', one had been shortlisted but the department considered it represented too high a risk for funding, another had also been shortlisted but the risk assessment had identified it as being ineligible and the remaining four had not been shortlisted but a risk assessment was subsequently undertaken at the request of the Minister.

17 The Strategic Review of Grants commissioned by the Government concluded that, given the fundamental importance of the approval process in relation to the expenditure of public funds, and for accountability purposes, it is critical that agencies have a clear understanding and record of Ministerial decisions, and their reasons. Consistent with an earlier ANAO recommendation, the review recommended that decision-makers be required to document the basis on which the approver was satisfied that the proposed expenditure represented an efficient and effective use of public money, and was in accordance with the relevant policies of the Commonwealth. Source: *Strategic Review of the Administration of Australian Government Grant Programs*, pp. 9 and 67-68.

obligations that regulate the approval of spending proposals, in addition to the factual terms of the approval. This reinforces the obligation, first introduced in December 2007, for departments to provide advice on the merits of each grant application in order to allow projects to be selected for funding having regard to the best outcomes from the expenditure of public moneys, relevant legislation and government policies.

Following approval of each of the projects, the Department worked expeditiously to develop and sign Funding Agreements, and make the initial upfront payments. These steps were necessary to allow projects to commence and thus generate economic stimulus. Subsequently, the department implemented procedures to monitor project commencement and progress as reported to it by councils.¹⁸

3.27 With regard to the provision of timely economic stimulus, the ANAO found that the RLCIP 'had not provided the planned level of stimulus in the timeframe that had been budgeted at the time it was introduced'¹⁹ as indicated by the following:

- the program timetable involved Funding Agreements being signed in June 2009 with a requirement that construction commence within six months of Funding Agreement execution. On the basis of the reporting to the Department by councils, 75 per cent of the 137 projects approved for funding in April 2009 had commenced construction within six months of the Funding Agreement being signed but ANAO analysis is that this reporting is not sufficiently reliable. Rather, the best available indicator of project commencement and progress relates to expenditure by councils on the approved project;
- to enable construction work to commence as soon as possible, significant upfront payments (between 25 per cent and 50 per cent of the grant amount) were paid to councils upon signing of Funding Agreements. However, there have been significant delays in these payments being used together with delays in projects progressing such that further payments have been delayed.²⁰ By 31 March 2010, total grant payments made had risen to some \$277 million but these payments remained nearly \$130 million (32 per cent) below the level that should have been

18 Audit Report No. 03 2010-11, pp. 25-26.

19 Audit Report No. 03 2010-11, p. 27.

20 For example, had projects been proceeding in accordance with the Funding Agreement milestones, milestone payments of \$83 million would have been made by 31 December 2009. However, actual milestone payments made to that date totalled less than \$9 million, some 90 per cent lower than planned.

paid had projects commenced and been progressing in accordance with the milestones specified in the respective Funding Agreements; and

- the reported use of Program funding was minimal in the first six months of 2009-10. There has been no marked improvement in this situation in the period to 30 June 2010 such that councils had reported to the Department that they had spent some \$142 million of the \$438.5 million that had been paid to them (some 68 per cent of funds had yet to be reported as spent). In April 2010 the Department changed its payment practices so as to increase the amount of funds being paid to councils, but this has not meant that there has been any acceleration in the rate at which funding is being spent by councils.²¹

3.28 In summary the ANAO concluded:

The relatively low level of program expenditure to date reflects the situation that a large proportion of the projects approved for funding were not ready to proceed; were planned to be delivered over a longer timeframe than that necessary to provide timely stimulus; and/or involved high project delivery risks which have been realised. The consequence has been that, whereas the Strategic Projects component was budgeted to have paid out \$300 million in 2008-09 and the remaining \$250 million in 2009-10 and each of the 137 Funding Agreements (as originally signed) required that projects would have proceeded sufficiently so as to allow all Commonwealth funding be paid on or before 30 June 2010, a significant rephrasing of funds (\$112 million) from 2009-10 to 2010-11 has been necessary.²²

ANAO recommendations

Table 3.1 ANAO recommendations, Audit Report No. 03 2010-11

1.	ANAO <i>recommends</i> that the Department of Infrastructure, Transport, Regional Development and Local Government improve the effectiveness of its risk management practices in assessing applications to grant programs by clearly discriminating between those risks that should be addressed before the application is considered for approval, those that require appropriate treatment prior to a Funding Agreement being executed and those that can be managed through a Funding Agreement.
DITRD LG response: Agreed.	
2.	ANAO <i>recommends</i> that, in the design of future grants programs, the

21 Audit Report No. 03 2010-11, pp. 27-28.

22 Audit Report No. 03 2010-11, pp. 29-30.

Department of Infrastructure, Transport, Regional Development and Local Government develop for Ministerial consideration clearly defined selection criteria that will be published in the program guidelines and applied in the assessment of grant applications.

DITRDLG response: Agreed.

3. ANAO *recommends* that, in the design of future grant programs, the Department of Infrastructure, Transport, Regional Development and Local Government give more consistent support to the achievement of key program objectives by:
- (a) obtaining information from project proponents on the extent to which their proposal is expected to contribute to program objectives;
 - (b) analysing the outcomes information submitted by proponents so that funding decisions can be informed by a robust assessment of the merits of competing proposals; and
 - (c) through the Funding Agreement, requiring funding recipients to report on progress toward, and the final achievement of, the anticipated project outcomes that informed the decision to award funding.

DITRDLG response: Agreed.

4. ANAO *recommends* that, in the interests of having program expenditure better reflect its substantive economic effect, the Department of Infrastructure, Transport, Regional Development and Local Government identify opportunities in future grant programs to tie payments to proponents more closely to the cash flow needs of approved projects.

DITRDLG response: Agreed.

5. ANAO *recommends* that, given the importance to economic stimulus outcomes of minimising lags between Program payments to councils and use of these funds by councils, the Department of Infrastructure, Transport, Regional Development and Local Government publicly report against key performance indicators for the Strategic Projects component of the Regional and Local Community Infrastructure Program, including the extent to which program funds paid to councils have been spent.

DITRDLG response: Agreed.

The Committee's review

- 3.29 The Committee held a public hearing on Monday 21 March 2011, with the following witnesses:

- Australian National Audit Office (ANAO);
 - Department of Infrastructure and Transport (DIT); and
 - Department of Regional Australia, Regional Development and Local Government (DRARDLG).²³
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23 Due to machinery of government changes following the election in August 2010, the responsibility for the RLCIP shifted to the DRARDLG.

3.30 The Committee took evidence on the following issues:

- assessment criteria;
- transparency;
- Regional Development Australia Fund (RDAF) Guidelines;
- value for money;
- ongoing controversy with regional grant programs;
- lessons learnt;
- support to councils during the application process;
- completion dates;
- local government asset maintenance programs;
- risk management practices; and
- monitoring program objectives.

Assessment criteria

3.31 The ANAO found that, contrary to best practice, the published Program Guidelines for the Strategic Projects component of the RLCIP, did not 'advise councils of the criteria that would be used to develop a ranked list of eligible applications'.²⁴ The Committee asked the DRARDLG why it had failed to provide clear, published assessment criteria for the Program.

3.32 DRARDLG told the Committee that the pressure of implementing the program during the global financial crisis had contributed significantly to the Department's inability to follow established guidelines in this regard. DRARDLG explained that the expansion of the program to provide stimulus measures to the Australian economy created a tight timeframe and difficult operating environment.²⁵ The Department felt that:

In the circumstances, guidelines were established and, in effect, the best possible job was done.²⁶

24 Audit Report No. 03 2010-11, p. 92.

25 Mr Gordon McCormick, Assistant Secretary, Local Government Programs, Department of Regional Australia, Regional Development and Local Government (DRARDLG), *Committee Hansard*, Canberra, 21 March 2011, p. 12.

26 Mr McCormick, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 12.

- 3.33 The ANAO acknowledged the context of the global financial crisis but maintained that it did not negate the need for clear assessment criteria to inform the Department's decisions.²⁷ Rather than saving time, the ANAO explained that a lack of assessment criteria can significantly add to the time required to identify eligible applications.²⁸ The ANAO told the Committee that the absence of clear criteria forces the Department to create the process as a program progresses:

That can be a more difficult exercise and a more time consuming exercise than having upfront, very clear criteria which, amongst other things, has been shown over time to make it less likely you will get applications for projects you do not want. Therefore, if you are focusing the applications down it can make it less work for you which, if you are in a hurry to get projects approved to stimulate the economy, is actually a benefit rather than a disbenefit.²⁹

- 3.34 Further, the ANAO told the Committee that a lack of published assessment criteria wastes the time of stakeholders, many of whom have limited resources. By way of example, the ANAO explained to the Committee that with regard to the RLCIP Strategic Projects program, the unpublished short-listing criteria excluded local government authorities with a population of less than 5000 people. Councils with between five and 10000 people were only eligible for eight of the funding categories.³⁰ The ANAO reiterated that the lack of published assessment criteria led to smaller, ineligible councils wasting their resources on unsuccessful applications:

If that was said to people upfront, these councils would not have wasted their time and energy applying for money – for which they could never be successful – if they were told, 'If you are less than 5000 people, you will not get any money'. To us that is an important lesson for any stimulus program and, in fact, any grants program. By being up front, (a) you will not waste the stakeholders' money and (b) you will narrow down your amount of work for how many applications you need to assess if you do not want these ones.³¹

27 Mr Brian Boyd, Executive Director, Performance Audit Services Group, Australian National Audit Office (ANAO), *Committee Hansard*, Canberra, 21 March 2011, p. 12.

28 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

29 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

30 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 18.

31 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 18.

Transparency

- 3.35 The ANAO noted that in April 2009, the Minister approved 131 of the 188 applications shortlisted for the Strategic Projects component of the RLCIP by the Department.³² However, the ANAO found that the reasons for the selection were not apparent and that there was no documentation or records either with the Minister's office or the Department.³³ The Committee expressed concern at the lack of transparency suggested by this finding and asked ANAO to comment on the apparent lack of process.
- 3.36 The ANAO reiterated the importance of assessment criteria, not only to assist stakeholders to submit targeted applications, but to assist departments to assess applications and provide advice to ministers.³⁴ The Audit Office emphasised that a 'record of the factors which have influenced the department's recommendations to government for particular projects' is essential for transparency.³⁵
- 3.37 The Committee asked DRARDLG to comment on the same issue. The Department admitted that it had been 'remiss' in not applying the assessment criteria but was adamant that the oversight was due to time constraints rather than a deliberate flouting of best practice.³⁶ Further DRARDLG told the Committee that the Department has taken steps to ensure the failure will not occur in the future by implementing all of the ANAO recommendations in the new Regional Development Australia Fund Guidelines.³⁷

Regional Development Australia Fund (RDAF) Guidelines

- 3.38 The Committee asked the ANAO if it had assessed the new Regional Development Australia Fund Guidelines released by DRARDLG in March 2011, particularly whether or not the Guidelines addressed the issue of clearly defined assessment criteria. The ANAO told the Committee that the new Guidelines satisfactorily addressed the issue, providing 'good guidance to applicants' regarding the program's requirements.³⁸ The

32 Audit Report No. 03 2010-11, p. 162.

33 Audit Report No. 03 2010-11, p. 26.

34 Mr Ian McPhee, Auditor-General, Australian National Audit Office (ANAO), *Committee Hansard*, Canberra, 21 March 2011, p. 12.

35 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 12.

36 Mr Justin Hanney, Deputy Secretary, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

37 Mr. Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

38 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

ANAO added that 'if well implemented' the new Guidelines would provide a 'much better outcome, from our perspective, for a grants program'.³⁹

- 3.39 The Committee inquired if existing projects were now operating under the new Guidelines. DRARDLG told the Committee that these projects were 'still operating under the current guidelines'.⁴⁰ Asked if there had been any change in the implementation phase of the existing projects, the Department told the Committee that the projects were largely implemented by the time the audit report was produced and improvements could not be applied retrospectively.⁴¹

Value for money

- 3.40 The ANAO found that, with regard to the provision of economic stimulus, there was a marked discrepancy between the scheduled payment to local government authorities, the actual payments made to the authorities and the expenditure payments reported by authorities.⁴² The ANAO noted that releasing funds to local government authorities before milestones had been met or previous funds spent, was detrimental to the stimulus response of the program.⁴³ The Committee is concerned that this departure from accepted practice implies that local communities have not received the full benefit of the grants funding and asked DRARDLG for evidence that the Australian taxpayer is receiving value for money on these projects.
- 3.41 The Department acknowledged the issue identified by the audit report and assured the Committee that the new RDAF Guidelines ensure that, in future, payments will only be made when previous payments have been fully expended or committed.⁴⁴ DRARDLG explained that in departing from normal practice, the Department had been mindful that local government authorities often have difficulty with cash flow and that DRARDLG was attempting to circumvent the problem by providing payments ahead of time.⁴⁵

39 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

40 Mr McCormick, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 16.

41 Mr McCormick, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 16.

42 Audit Report No. 03 2010-11, pp. 227-230.

43 Audit Report No. 03 2010-11, pp. 230-231.

44 Mr McCormick, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 13.

45 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 14.

- 3.42 DRARDLG also informed the Committee that the new RDAF Guidelines clearly define value for money and set out the measurement criteria by which value for money will be assessed for future projects.⁴⁶

Ongoing controversy with regional grants programs

- 3.43 The Committee recognises the benefits of regional grants programs and asked DRARDLG to comment on the ongoing controversy and apparent difficulties with delivery experienced by these programs. The Department identified the problems associated with demand and supply, with demand always outstripping supply, as a major contributor to the difficulties.⁴⁷ Assessing the variety of projects across local government authorities also presents a challenge for the Department:

When you are measuring one rural local government's projects often the projects are very different projects, so it is not comparing one hospital to another hospital but comparing a swimming pool to an arts centre to a road. So there is comparison of these projects and then the depth in terms of how you measure the value of something to one community versus another community.⁴⁸

- 3.44 The ANAO also identified the discrepancy between demand and supply as the source of most contention and reiterated the need for clearly defined assessment criteria to alleviate the problem:

It is not unusual to see a program oversubscribed by four, five, or 10 times. That is where, from our perspective, the real issue then becomes: if the program funding is such that it cannot meet all of the demand, the process that is adopted by the government is important in actually working through an open, transparent, accountable process of narrowing down which are the most meritorious applications for this program to deliver on its intended outcomes to the communities which are being targeted.⁴⁹

Lessons learnt

- 3.45 The Committee asked if the lessons learnt from the implementation of this program as a stimulus measure have helped to improve any future

46 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 14.

47 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 14.

48 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 14.

49 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 14.

government response to a similar situation. DRARDLG told the Committee that the relevant guidelines had been improved by successive audit reports, including the latest one, and that the Department was better prepared to implement such a program quickly:

If there was to be a very quick program picked up to distribute funds in the same way, then I think the Department is in a much better position, from lessons learnt, to be able to apply that funding.⁵⁰

- 3.46 DRARDLG also indicated the improvements by the implementation of the Regional Development Advisory Committees (RDACs).⁵¹ These Committees have substantially improved communication between the Department and local government authorities fostering a better understanding of both the Department's requirements and regional priorities. The direct result has been a more effective and efficient implementation of the grants process.⁵²

Support to councils during application process

- 3.47 The Committee recognises the difficulties faced by smaller local government authorities negotiating the grants application process, particularly the lack of access to relevant expertise. The Committee asked DRARDLG what steps government agencies could take to assist local government authorities to prepare applications.
- 3.48 DRARDLG acknowledged the difficulties faced by local government authorities in this regard and told the Committee the Department has implemented measures to address the issue. DRARDLG advised that, acting on probity advice, it has developed two separate areas in the Department: one section administers the RDAF program and the other, based in the regions, provides advice to local government authorities.⁵³ The Department emphasised that the field staff are not involved in the assessment of projects and so are free to provide assistance and advice as required.⁵⁴
- 3.49 DRARDLG told the Committee that the field staff will complement the RDACs in providing assistance to local government authorities.⁵⁵
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50 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 15.

51 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 15.

52 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 16.

53 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, pp. 16-17.

54 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 17.

55 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 17.

However, the Committee noted that without operational support and funding the role of the RDACs would not be effective.

- 3.50 The ANAO also noted that local government authorities would benefit from more detailed feedback on their unsuccessful applications. The ANAO pointed out that the standard letter sent to unsuccessful applicants did not provide sufficient information and suggested a more comprehensive process would be useful:

If there is something significantly wrong with their application, they do not get told unless they work through the difficult process of finally getting someone to give them telephone feedback and so forth.⁵⁶

Completion dates

- 3.51 The ANAO found that there had been a considerable lag in the expected completion date of projects and that there were significant discrepancies between the amount of funds paid to recipients and the amount expended by the recipients.⁵⁷ The ANAO reiterated that failure to tie payments to the cash flow needs of projects was detrimental to the proposed economic stimulus objective of the program.⁵⁸

- 3.52 The Committee asked DRARDLG what had been done to redress the lag and to provide an update on the expected completion date of projects. The Department told the Committee that it had been working with local government authorities to address the issue:

In the development of these projects, we have been working closely with councils to identify practical completion dates and where there have been instances where they had to be varied we have sought approval and varied the funding agreements to reflect the practical dates.⁵⁹

- 3.53 DRARDLG provided the Committee with the following graph which indicates that project completion and grant expenditure is expected to meet the due date of July 2012.

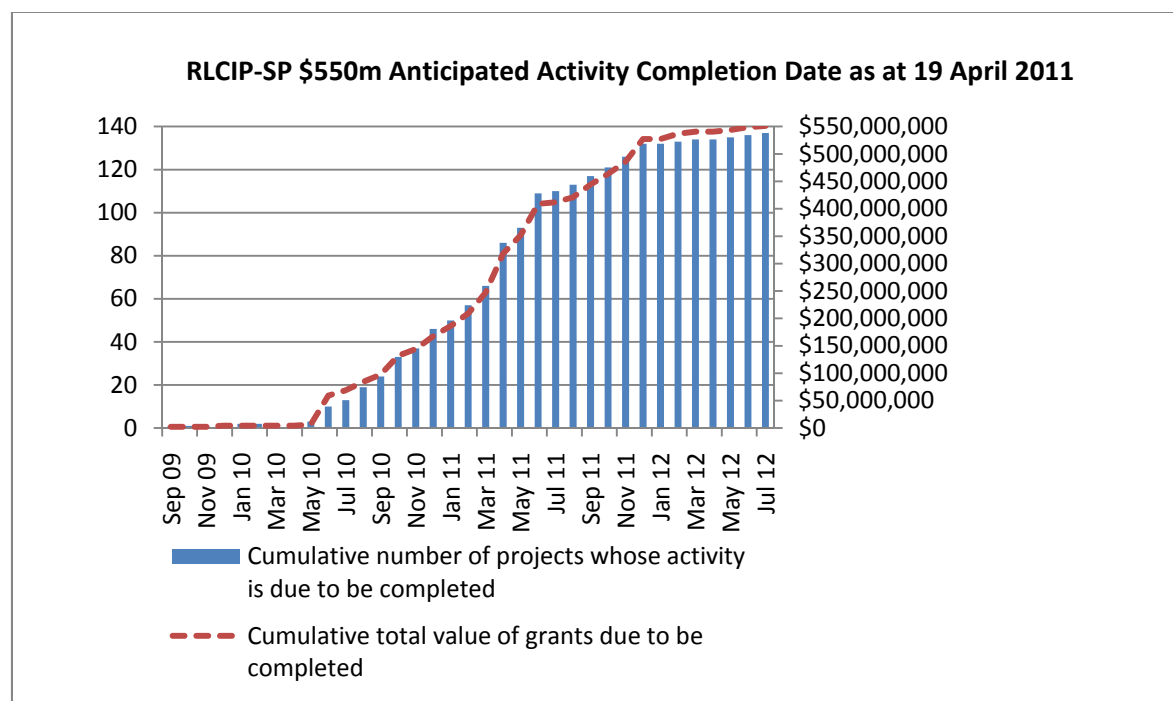
56 Mr Boyd, ANAO, *Committee Hansard*, Canberra, 21 March 2011, p. 18.

57 Audit Report No. 03 2010-11, pp. 225-226.

58 Audit Report No. 03 2010-11, pp. 226-227.

59 Mr McCormick, DRARDLG, *Hansard Committee*, Canberra, 21 March 2011, p. 17.

Figure 3.1 RLCIP-SP \$550m Anticipated Activity Completion Date as at 19 April 2011



Source DRARDLG Submission 13

3.54 The Committee asked DRARDLG what impact the recent natural disasters, particularly the cyclone and floods in Queensland, may have had on projects. The Department told the Committee that it had not received any information suggesting major delays to projects:

Councils have informed the Department that there have been some minor delays to RLCIP Strategic Projects as a result of the floods, or as a result of a redistribution of resources to flood relief efforts, but no major variations have been requested as at 21 April 2011.⁶⁰

Local government asset maintenance programs

3.55 The Committee raised the issue of local government asset maintenance programs, particularly with regard to local roads and timber bridge programs, and asked DRARDLG what planning, if any, is in hand to deal with this problem. The Committee expressed concern that local government authorities have to focus all of their available resources on the

⁶⁰ DRARDLG, *Submission 13*, p. 2.

maintenance of these assets and cannot consider participating in such programs as the RLCIP Strategic Projects program.

- 3.56 The Department assured the Committee that the new RDAF Guidelines include the 'capacity for local governments to apply for bridge funding'.⁶¹ DRARDLG explained that the quality of asset management planning differed considerably across local government authorities and the primary focus of the Department was to promote better planning by councils and the implementation of satisfactory asset management strategies.⁶² To this end, the Department encourages local government authorities to not only identify eligible infrastructure projects but determine the broader importance of those projects:

... what we would be testing for is if we simply get 50 applications from a municipality to replace their timber bridges, have they actually thought through which of them are critical social infrastructure or economic infrastructure and those other assessments. It is trying to tackle not just the end product but also to get the thinking and the strategy right so there was good science sitting behind those.⁶³

- 3.57 Additional, DRARDLG provided the Committee with the following information regarding projects funded under the Local Government Reform Fund (LGRF) to assist local government authorities with asset management:

Table 3.2 LGRF – Phase one projects – Treasury administered

Recipient	Project title	Committed LGRF over 2010/11 2011/12
New South Wales Government	Local government asset management and financial management project	\$3,250,000
Northern Territory Government and the Local Government Association of the NT	Local government capacity building project	\$1,350,000

61 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 20.

62 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, pp. 19-20.

63 Mr Hanney, DRARDLG, *Committee Hansard*, Canberra, 21 March 2011, p. 20.

Queensland Government and Local Government Association of Qld	Advancing asset management in local government	\$2,695,000
South Australian Government and Local Government Association of SA	Improving SA councils' asset and financial management practices	\$1,650,000
South Australian Government and local government bodies	Adelaide integrated design strategy	\$1,000,000
Local Government Association of Tasmania	Long term asset and financial management planning for all Tasmanian councils	\$870,000
Southern Tasmanian Councils Authority	Independent review of structures for local governance and service delivery in southern Tasmania	\$150,000
Tasmanian Government and Southern Tasmanian Councils Authority	Future-proofing Tasmania's councils: a regional and land use based approach to climate change adaptation	\$400,000
Victorian Government and Municipal Association of Victoria	Local government sustainability project	\$964,000
Victorian Government and Municipal Association of Victoria	Local government regional asset management services project	\$1,404,000
Western Australian Government	Integrated strategic planning, financial management and asset management in local government	\$2,351,000
Australian Capital Territory	Development of an asset and financial management planning framework	\$437,000
	Total	\$16,521,000

Source DRARDLG, Submission 13

Risk management practices

3.58 The ANAO was critical of DRARDLG's attempt to manage project risk through Funding Agreements and recommended that the Department improve the effectiveness of its risk management practices.⁶⁴ The Committee asked DRARDLG what steps had been taken to implement this recommendation.

64 Audit Report No. 03 2010-11, p. 144.

- 3.59 The Department informed the Committee that, consistent with the Commonwealth Grant Guidelines, under the current RDAF, DRARDLG has:
- established an assessment process clearly related to program objectives. Assessments will be carried out by the Department and an Independent Advisory Panel; and
 - made project risk a specific element to be managed through the life of the project from pre-contract conditions through Funding Agreement establishment to project acquittal.⁶⁵

Monitoring program objectives

- 3.60 The ANAO found that DRARDLG had not specified the need to meet the program objectives in the selection criteria and had not included provisions in Funding Agreements to collect data to monitor and evaluate whether or not program objectives were being met.⁶⁶ The ANAO recommended that the Department improve these areas in future grants program.⁶⁷ The Committee asked DRARDLG what steps had been taken to implement this recommendation.
- 3.61 The Department informed the Committee that this issue had been addressed in the new RDAF Guidelines:
- the program guidelines identify program objectives and frame specific eligibility and selection criteria against these;
 - all projects will be assessed for alignment with program objectives, for viability and for risk; and
 - project reporting will occur at least bi-monthly against agreed milestones. The available data will enable timely monitoring of overall program progress against objectives.⁶⁸

Committee comment

- 3.62 While the Committee acknowledges the time pressures exerted as a result of the global financial crisis on the implementation of the RLCIP Strategic Projects program, it does not concede that these pressures excused the Department from adhering to a minimum standard of practice that would

65 DRARDLG, *Submission 13*,

66 Audit Report No. 03 2010-11, pp. 205 and 208.

67 Audit Report No. 03 2010-11, p. 210.

68 DRARDLG, *Submission 13*, p. 4.

ensure transparency throughout the grants administration process. On the contrary, the Committee would have expected the Department to adhere to basic grants administration processes particularly in light of the lessons learnt from previous Parliamentary and ANAO scrutiny. This suggests to the Committee that the Department has not taken its previous assurances to implement and adhere to improved grants administration seriously.

- 3.63 In this regard, the Committee wishes to register its dissatisfaction with the Department's failure to provide clear, published assessment criteria for the program. The consequences in terms of wasted time and resources cannot be justified.
- 3.64 The Committee understands that the lack of published assessment criteria contributed directly to the oversubscription of the program. The processes put in place to rectify the situation do not appear to have provided the Minister with clear recommendations regarding the eligibility or otherwise of applications. The Committee is concerned that DRARDLG did not provide the Minister with clear, documented advice on which to base their decisions.
- 3.65 Overall, it is the lack of documentation surrounding the final selection of successful applications that is of greatest concern to the Committee as it signals a lack of accountability and transparency. The Committee draws attention to the financial framework requirements, in place since December 2007, regarding the need for Ministers to obtain agency advice on the merits of each proposed grant before making decisions. If this advice is not documented there is no way for the Parliament or the public to be sure that due process has been followed.
- 3.66 The Committee is also concerned with the ANAO finding that the Strategic Projects program did not provide the expected economic stimulus. In particular, the Committee is critical of the fact that DRARDLG went against its own better practice standards and did not align payments with proponent's expenditure or outcomes and achievement. Although the Committee accepts the Department's assurance that it has responded to the ANAO concerns and that in future payments will only be made when previous funding has been fully expended, it warns DRARDLG that the JCPAA will take particular note of this issue when examining future programs.
- 3.67 The Committee welcomes DRARDLG's assurances that it is now better placed to deal with any future event that produced similar pressures on grants administration to those experienced during the global financial crisis pressures. The Committee accepts the Department's assurance that it

has implemented relevant processes and practices to improve its performance through addressing the ANAO's recommendations.

- 3.68 The Committee also welcomes the new RDAF Guidelines and accepts the ANAO's assurance that the Guidelines address the issues identified in this audit. However, if the Committee finds similar failings in grants administration in the future, either in this Department or across the APS more broadly, it will not look on the findings favourably.
- 3.69 The Committee recognises the difficulties faced by some local government authorities in complying with stringent application requirements due to lack of access to necessary expertise. Consequently, the Committee supports any attempts to ensure assistance is provided to local government authorities in this regard, including the provision of adequate operational funding for RDACs.
- 3.70 The Committee stresses the need for adequate feedback to unsuccessful applicants and encourages the Department to put in place processes to ensure that applicants have easy access to such feedback.
- 3.71 The Committee accepts the reassurance from the ANAO that the recommendations from this audit have been largely implemented but reiterates its ongoing concern with the recurring difficulties identified by the ANAO in grants administration more broadly. The Committee urges relevant departments across the APS to observe best practice in this area and to consult the ANAO wherever possible to ensure more effective implementation, monitoring and evaluation.

