



Auditor-General for Australia



31 October 2019

Mr Tony Pasin MP
Chair
Select Committee on Regional Australia
By email: regional.reps@aph.gov.au

Dear Mr Pasin

Inquiry into Regional Australia

The Australian National Audit Office (ANAO) has published the following performance audit reports that you may find relevant to the inquiry into Regional Australia.

- Report No. 30 of 2016–17 [*Design and Implementation of Round Two of the National Stronger Regions Fund*](#)
- Report No. 25 of 2013–14 [*Management of the Building Better Regional Cities Program*](#)

Information about what these audits assessed, concluded and recommended is attached. The audit reports are available online at www.anao.gov.au.

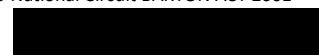
In addition, the ANAO has two relevant audits currently in progress: [*Award of funding under the Regional Jobs and Investment Packages*](#), due to table November 2019 and [*Design and establishment of the Regional Investment Corporation*](#), due to table April 2020.

Should the Committee require further information in relation to the tabled audits, my office would be pleased to provide you with a briefing at a time convenient to you or appear as a witness at a hearing. To arrange a briefing, please contact our External Relations area at [REDACTED]

Yours sincerely

[REDACTED]

Grant Hehir



Tabled audit reports

Report No.30 of 2016–17 *Design and Implementation of Round Two of the National Stronger Regions Fund* assessed the effectiveness of the design and implementation of round two of the National Stronger Regions Fund. To form a conclusion against the objective, the ANAO adopted the following high-level criteria:

- Did the application and assessment process attract, identify and rank the best applications in terms of the published criteria and value for money?
- Were the decision makers appropriately advised and given clear funding recommendations?
- Were the decisions taken transparent and consistent with the program guidelines?
- Was the design and implementation of the program outcomes oriented, and are arrangements in place for program outcomes to be evaluated (including the likely economic benefits to regions)?

The audit concluded:

- Program design and implementation was largely effective. In addition, earlier audit recommendations aimed at improving the Department of Infrastructure and Regional Development's assessment of applications, funding advice to decision-makers and evaluation of program outcomes have been implemented.
- The application process for round two funding was accessible and attracted sufficient applications of merit. The eligibility requirements were appropriate and consistently applied. Applications assessed as ineligible were excluded from further consideration.
- The merit criteria were consistent with the program's objective. The criteria would have been more effective at maximising the achievement of the underlying policy intent if explicit consideration had been given to the magnitude of economic benefits claimed and to the socio-economic circumstances and unemployment rates of regions.
- Applications were assessed transparently and consistently against the published merit criteria. The department then used the results to rank applications in terms of its assessment of them against the criteria and the requirement to achieve value with relevant money.
- The Ministerial Panel was appropriately advised and given a clear funding recommendation. There was a clear line of sight from the results of the department's assessment of eligible applications against the merit criteria, the department's selection of 104 applications for funding recommendation, the Ministerial Panel's reassessment of 28 applications, through to the approval of 111 applications in round two. Internal documentation recording funding decisions, and their reasons, has been further improved by the department but its responses to Parliamentary scrutiny when questioned about its input to those funding decisions were not transparent (this issue has arisen previously).
- Arrangements are in place for program outcomes to be evaluated, including the likely economic benefits to regions. Each approved project had been assessed as likely to deliver an economic benefit.

The ANAO recommended:

- The Department of Infrastructure and Regional Development ensures its program designs contain explicit mechanisms for targeting funding in accordance with the stated policy objectives of the program.

Report No. 25 of 2013–14 *Management of the Building Better Regional Cities Program* assessed the effectiveness of the design and conduct of the funding round for the Building Better Regional Cities Program (BBRC). The objective of the audit was to assess the effectiveness of the design and conduct of the funding round for the Building Better Regional Cities 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.

The audit concluded:

- At the completion of the BBRC program application round, 17 grants totalling \$113.8 million were awarded. Three of these projects did not proceed to contract or are no longer under contract, and have been replaced by two other projects. The 16 projects currently contracted under the BBRC program are required to deliver nearly 3000 subsidised lots/dwellings in 15 regional cities, across four states.
- Key elements of the design of the BBRC program to implement the then Government's policy were effective. Of note was that the BBRC program guidelines outlined that funding would be awarded through a competitive selection process, an approach that is consistent with the Commonwealth Grant Guidelines. In addition, the BBRC program guidelines clearly identified the 47 eligible regional councils and effective steps had been taken to encourage them to apply for funding. Further, the program guidelines outlined the five assessment criteria that were to be used to select those projects that best met the program objective and would deliver strong outcomes and represent value for money. This was supported by the department's documented assessment methodology providing a clear and consistent basis for differentiating between the comparative merits of individual projects.
- However, the BBRC program has been implemented in a way that gave insufficient attention to the program's objective, the related key performance target (of delivering up to 8000 additional more affordable homes), the program guidelines and the importance of achieving value from the expenditure of public funds. Rather, emphasis was given to spending the program's \$100 million budget, notwithstanding that the recommended applications were expected to deliver less than 3200 additional more affordable homes (a figure 60 per cent below the program target), and that most of the applications had been assessed by the department to lack sufficient merit¹ and/or as not providing value for money.
- This situation was compounded when it was decided to apply unpublished eligibility criteria following projects submitted by local governments that had regard to the extent of socio-economic disadvantage, and limiting projects to one per local government. This denied funding to some of the better credentialed applications submitted in response to the program guidelines, and increased the amount of BBRC program funding to be awarded. The result was that \$113.8 million² in BBRC grant funding was awarded to 17 projects that were expected to provide up to 3875 subsidised lots/dwellings, a figure less than half the targeted amount from a

¹ In particular, a number of projects had been assessed as not meeting the key policy criterion that projects assist communities that are experiencing jobs and population growth and which need more homes to be built.

² As noted at paragraph 5, additional funds were transferred to the BBRC program (from the Housing Affordability Fund) so as to allow further applications to be approved.

\$100 million program, with all but four of the approved applications assessed to have not adequately met at least one of the published merit criteria.

- The award of program funding in this manner has been reflected in the BBRC program performing poorly in terms of delivering the benefits envisaged when the program was announced, both in relation to the amount of new affordable housing being delivered and the extent of benefits being passed onto purchasers.³ In addition, reflecting the quality of those applications approved for funding, a number of projects have not proceeded or have had significant changes to their contracted scope. Also, significant risks relating to project delays have materialised. In particular, only eight of the contracted projects are on track to deliver the BBRC-funded infrastructure works by the original program deadline of 31 March 2014.
- Against this background, a key message from ANAO audits of grant programs over the years, and highlighted in ANAO's grants administration Better Practice Guides⁴, is that selecting the best grant applications 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 equitably, and those applications that are funded are the most likely to further the program's objectives.⁵
- Both of the ANAO's recommendations relate to the Department of Social Services increasing its focus on pursuing value for money outcomes when administering grant programs.

The ANAO recommended:

- 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:
 - 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
 - b) the merits of not awarding some or all of the available funding where a shortfall in program performance is expected.
- To adopt a greater outcomes orientation in the administration of future grant programs the ANAO recommends that the Department of Social Services:
 - a) at an early stage of program design, develop and endorse an evaluation strategy that is proportional to the significance of the program; and
 - b) reflect key program design parameters and targets in published key performance indicators and report against these.

³ In this latter respect, see further at paragraph 33.

⁴ ANAO Better Practice Guide, Implementing Better Practice Grants Administration, Canberra, June 2010, p. 7 and ANAO Better Practice Guide, Implementing Better Practice Grants Administration, Canberra, December 2013, p. 3.

⁵ Similarly, the grants administration framework was developed based, in part, on recognition 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.

Audit reports in progress

Award of funding under the Regional Jobs and Investment Packages will assess whether the award of funding under the Regional Jobs and Investment Packages program was informed by appropriate departmental advice, and that processes complied with the grants administration framework.

The ANAO proposes to examine whether:

- applications were soundly assessed in accordance with the program guidelines; and
- funding decisions were supported by clear advice and consistent with requirements.

Design and establishment of the Regional Investment Corporation will assess the effectiveness of the design and establishment of the Regional Investment Corporation.

- The ANAO proposes to examine:
- Was the design process effective?
- Are governance arrangements sound?
- Are loan arrangements effective?