

Accountability

- 4.1 The final measurement of a successful program is its level of accountability. To be accountable, each decision made during the administration of a program must be able to be adequately explained.
- 4.2 Unfortunately, the RPP was plagued with concerns about its accountability. The ANAO cited delays, project cost increases and the adequacy of departmental due diligence, financial management, and adherence to departmental procedures as matters of concern. There were also concerns about the relationship between political and administrative processes under the RPP.¹

How do you make a new program more accountable?

- 4.3 The Committee's interim report discussed several ways in which a new program might be made more accountable. Centralising the assessment process in a department equipped with adequate resources may be part of the solution, as will be changes to the Financial Management and Accountability (FMA) Regulations. Finally, program outcomes must be accurately assessed to ensure that funding agreements have been properly executed and that public money has been spent on its intended purpose.

1 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, pp. 37-38.

A more accountable assessment process

- 4.4 For a program to be accountable, it must be administered by people with the specific knowledge and skill sets required for the job. Just as it is important for those assisting applicants to have regional knowledge, it is equally important that application assessors have the skills to assess the financial viability of applications and projects, so as to not hinder the decision making process. This could be achieved through a combination of senior appointments made on the basis of the required skills, the use of third-party providers and continued training for departmental staff.
- 4.5 The assessment process could then be made more accountable by ensuring that skilled assessors are located in one office. The decentralised assessment model of the RPP contributed to the below-standard administrative culture of the program; therefore, the Committee has recommended that group administrative functions be retained by the DITRDLG at a central office.²
- 4.6 This may have the advantage of increasing the agency's capacity to attract and retain the necessary financial expertise to administer the RLCIP, while certainly creating clearer lines of responsibility and reducing the number of administrative layers involved in the assessment process.³

Holding final decision makers to account

- 4.7 The Committee has supported the continued use of ministerial discretion when approving regional funding under the RLCIP. Nevertheless, it did recognise that some of the problems which arose during the previous program stemmed from considerable decision-making flexibility being granted to ministers.⁴

2 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 30.

3 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 30.

4 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, pp. 56-58.

- 4.8 Flexibility was considered a strong point of the RPP on the basis that the program could support innovative projects, including many which may not have normally been funded because they involved more than one portfolio area. However, ministers' direct involvement in decisions over applications was seen as calling the political neutrality of the program into question. In response, the former government created a Ministerial Committee to consider applications, with the object of improving transparency and reducing time-lines for decision-making.⁵
- 4.9 Problems with ministerial discretion under the RPP also arose when Minister's made decisions which were at odds with program guidelines and the advice tendered by DOTARS. This contributed to a sense of uncertainty about the status of those guidelines, and had a negative effect on compliance within DOTARS. Furthermore, reasons for decisions which departed from guidelines and advice were often not recorded and were not required to be recorded under FMA Regulations at the time.⁶
- 4.10 It was the Committee's view that a new program should strive to remain flexible while reducing the risk inherent in retaining ministerial discretion. To that end, the Committee endorsed ANAO recommended changes to the FMA Regulations which called for ministers (or other approvers) under FMA Regulations to record 'the basis on which the approver is satisfied' that expenditure 'represents efficient and effective use of the public money' and 'is in accordance with the relevant policies of the Commonwealth'.⁷
- 4.11 The Government has since responded to the ANAO's recommendation by announcing reforms to the administration of Commonwealth grant programs.⁸ *New Commonwealth Grant*
-

5 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 57.

6 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 57.

7 ANAO quoted in, House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 58.

8 The Hon Lindsay Tanner MP, Media Release: *Improving Government Grants*, 9 December 2008, <http://www.financeminister.gov.au/media/2008/mr_422008.html>, accessed 16, December 2008.

Guidelines will take effect on 1 July 2009 and will be ‘underpinned by a package of regulatory changes which will make it a legal requirement for Ministers and government officials to follow the new guidelines’.⁹

- 4.12 In addition, there will be a legal requirement for ministers and officials to record the basis upon which they are satisfied that a particular grant is an efficient and effective use of public money.¹⁰
- 4.13 These changes will reinforce ministerial responsibility for the new program and help to reduce the discretionary risks associated with the RPP as ministers will now be held to greater account for their decisions and subject to the penalties for offences against the Regulations.

Ensuring project success

- 4.14 During its inquiry, the Committee was particularly concerned about the RPP’s acquittal process. Evidence in the ANAO report suggested that during the audit period (2003 – 2006) the acquittal process was often deficient.¹¹ In some instances, money was paid in advance to projects, making the acquittal process retrospective. Furthermore, the Committee was advised that the acquittal process was done through a one page template to be filled out by the funding recipient and therefore, very little information was provided on where the funds had been expended.¹²
- 4.15 The obvious concern for the Committee in framing recommendations for a new program has been to ensure that money expended under the program is spent as it is intended to be – this is a key element in ensuring the success of projects under the program.
- 4.16 When the Committee questioned the DITRDLG about its acquittal processes, it was advised that since the audit period, the Department

9 The Hon Lindsay Tanner MP, Media Release: *Improving Government Grants*, 9 December 2008, <http://www.financeminister.gov.au/media/2008/mr_422008.html>, accessed 16, December 2008.

10 The Hon Lindsay Tanner MP, Media Release: *Improving Government Grants*, 9 December 2008, <http://www.financeminister.gov.au/media/2008/mr_422008.html>, accessed 16, December 2008.

11 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 61.

12 Mr Brian Boyd and Ms Tina Long, *Transcript 13 October 2008*, pp. 17-18.

has been asking for 'the full financial details on accounting for expenditure of [Commonwealth] funding'¹³ and has withheld payments when milestones have not been achieved. Also, the practice of paying money before it has been expended has ceased.¹⁴

- 4.17 The Department also stressed the importance of examining the outcomes of government investment, stating that the achievement of milestones would be sufficient evidence that money was being well spent:

So long as the outcome is achieved, we can verify the outcome has been achieved, and that is the milestone in the contract, we do not look at how all the money was spent.¹⁵

- 4.18 The Committee does not disagree with an outcomes based approach but stresses that the meeting of a milestone is an outcome that should represent an expenditure of funds for a specific purpose and be confirmed in detail in order for a thorough acquittal to have taken place. There cannot be a repeat of circumstances where money has been expended and acquitted but nothing has occurred.

- 4.19 In addition, project acquittals should be commensurate with the amount of contribution and the Committee wishes to stress again that the prescribed details of a funding agreement are vital to assessing a project's outcomes and should be clearly defined within a funding agreement. This will avoid confusion on the part of funding recipients as to expected outcomes.¹⁶

- 4.20 There should also be language within all funding agreements which specifies the exact purpose of the funding received. If the funding agreement is sufficiently detailed, yet clearly stated, then it is reasonable to expect that failure to meet objectives stipulated within the agreement would constitute a breach of the agreement thereby providing the Commonwealth with a measure of redress.

13 Mr Tony Carmichael, *Transcript 13 October 2008*, p. 44.

14 Mr Tony Carmichael, *Transcript 13 October 2008*, p. 45.

15 Mr Tony Carmichael, *Transcript 13 October 2008*, p. 45.

16 House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding Regional and Local Community Infrastructure: Proposals for the new Regional and Local Community Infrastructure Program, Interim Report*, November 2008, p. 63.

Conclusion

- 4.21 Given the level of scrutiny that the RPP had undergone, it should be expected that any future program will be considerably more accountable than its predecessor. Lessons have been learnt and many mistakes have already been rectified. Departmental processes have changed drastically since the ANAO report and recent changes to the FMA Regulations will help improve the accountability of future programs.
- 4.22 A program featuring a centralised assessment process administered with the appropriate resources will be a much more accountable one when considering that changes which have already been implemented. In addition, an acquittal process utilising well-structured funding agreements – where expenditure is based on a thorough examination of each milestone – will also be an essential component to the accountability of a new program.

Recommendation 5

- 4.23 **The Committee recommends that the Government, in establishing a new regional infrastructure funding program, ensure that in addition to changes which have already occurred, a new funding program should employ:**
- **a centralised assessment process administered with the appropriate resources; and**
 - **an acquittal process utilising well-structured funding agreements, where expenditure is based on a thorough examination of each milestone.**

Catherine King MP

Chair

June 2009