

The Process

- 3.1 This chapter considers stages in the project life-cycle under the RPP, and its implications for the RLCIP. These stages include: applications, assessment, decision-making on grants, project management and monitoring, and project evaluation.
- 3.2 Under the RPP, stake-holders experienced considerable frustration. Delays in assessment and approval were cited as problematic, as were a lack of transparency and certainty in connection with application approvals.¹ In practice, delays and subsequent increases in cost threatened the viability of projects.² In a more general sense, delays also reduced the degree to which the program was seen as fair and above-board by applicants and associated parties.³
- 3.3 Similar concerns were expressed from an audit perspective: the ANAO cited delays and project cost-increases as matters of concern.⁴ Added to this were questions about the adequacy of DOTARS' actions relating to due diligence, financial management, and adherence to –

1 Mr Trevor, Wide Bay Burnett ACC, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.26; ACC – Illawarra, *Submission No.1*, pp.3-4; Ms Dorn, BGT Employment, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.32.; Mr Mike Hyde, Wingecarribee Shire Council, *Submission No.125*, p.3; Mr Ian McPhee, Australian National Audit Office, *Submission No.49*, p.3.

2 Mr Russell, Central Murray ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August, 2008, p.31; Mr Marshall, Maningrida JET Centre, *Official Committee Hansard*, Darwin, Monday 28 July 2008, p.47; Dr John O'Brien, ACC - Hunter, *Submission No.104*, p.7.

3 Prof. Arlett, North Queensland ACC, *Official Committee Hansard*, Cairns, Friday 25 July, 2008, pp.20, 32; Mr Pollock, North Queensland ACC, *Official Committee Hansard*, Cairns, Friday 25 July, p.33.

4 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.124-127, pp.316-318.

and the adequacy of – departmental procedures.⁵ There have also been broader concerns about the relationship of political and administrative processes under the RPP: one example of which has been the timing of announcements for political rather than administrative advantage.⁶

Applications

- 3.4 The Committee heard that preparing an application under the RPP represented a considerable investment of resources, often entailing significant levels of unpaid work by members of the applicant organisation.⁷ It also represented an investment of hope and expectation on the part of regional communities, and in instances where the management of applications fell below community expectations, particularly where they were unduly delayed, this resulted in significant damage to morale.⁸
- 3.5 In some cases, delays have led to partners withdrawing, so that projects have ceased to be viable.⁹ Together with considerable project-cost increases where outcomes have been delayed, these factors underscore the importance of effective handling of applications through the full program life-cycle.¹⁰

Making the application process easier

- 3.6 A significant number of contributions to the inquiry expressed dissatisfaction with the application process as it stood under the RPP. A view commonly expressed in submissions and roundtable hearings was that application forms were unduly complex and difficult to complete, and that this disadvantaged applicants from less prosperous regional communities.¹¹

5 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.112, 305, 390, 310-313, 316-318.

6 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.133.

7 Mr Peter O'Rourke, Shellharbour City Council, *Submission No.123*, p.3.

8 Mr Peter Couper, ACC - Melbourne East, *Submission No.96*, p.10.

9 Dr John O'Brien, ACC - Hunter, *Submission No.104*, p.14.

10 Mr Ian McPhee, Australian National Audit Office, *Submission No.49*, p.3.

11 Mackay Region ACC Inc, *Submission No.198*, p.4; Mr Trevor, Wide Bay Burnett ACC, *Official Committee Hansard, Toowoomba, Monday 21 July 2008*, p.25; Mr Keenan,

- 3.7 It was suggested that the complexity of application forms, and the application process in general, often made it necessary to engage professional third parties to undertake the application process, if there were to be any hope of a successful outcome.¹² There was a perception on the part of some ACCs and applicants that DOTARS gave undue emphasis to format and presentation in assessing applications.¹³ It was suggested that in practice this led to inequities: less well-to-do regional communities had a smaller pool of local expertise to draw on, and were therefore more in need of assistance from third parties, but were less able to purchase it.¹⁴
- 3.8 Contributors to the inquiry were consistent in the view that the application process for a future regional funding program should be less complex than it was under the RPP. However, it is necessary to weigh this perceived need to improve access against the need to obtain good-quality information – particularly financial information – if the DITRDLG is to fulfil its obligation to provide a good standard of management.
- 3.9 As noted above, under Financial Management Act (FMA) Regulations, parties directly involved in delivering programs must take all reasonable steps to ensure that good value for money is obtained for expenditure from the public purse (FMA Regulation 9).¹⁵ This obliges agencies to perform due diligence in relation to grant applications, which is to say that all reasonable steps be taken to acquire appropriate financial and other information related to expenditure.¹⁶
- 3.10 For the former program, the ANAO consistently found that too little information, of insufficient quality, was brought to bear on applications, and that this had a negative effect on the Department's ability to discharge its obligations for good management.

Economic Development Australia, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.8.

12 ACC - Illawarra, *Submission No.1*, p.6; Ms Mary Walsh, Wide Bay Burnett ACC, *Submission No.114*, p.6; Mr Peter O'Rourke, Shellharbour City Council, *Submission No.123*, p.3.

13 Mr Peter O'Rourke, Shellharbour City Council, *Submission No.123*, p.3.

14 Ms Mary Walsh, Wide Bay Burnett ACC, *Submission No.114*, p.6.

15 Australian National Audit Office (ANAO), *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.50-51.

16 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.393.

- 3.11 With these considerations in mind, there are a number of imperatives to be balanced. Reduced requirements for applications may lower barriers to access, and may also reduce delays and program administration costs. However, good standards of public administration for a grants program require high-quality information about applicants and projects.
- 3.12 A suggested response from contributors to the inquiry was to make the complexity of the application process, including the depth of information required, commensurate with the amount of contribution sought from the program, thus differentiating levels of risk to which the Commonwealth would be exposed if funding were to be approved for smaller and larger grants.¹⁷ This is consistent with practice adopted by the former program in the latter part of its life, during which different application processes, and requirements for information, were set according to level of contribution sought from the RPP.¹⁸
- 3.13 Consistent with this, contributors suggested that there be different application forms and processes for applications seeking different amounts of program contribution.¹⁹ A number of different thresholds were proposed for this purpose, including that applications seeking less and more than \$500,000 should be treated differently; above and below \$200,000, or \$100,000; and, more commonly, that \$50,000 of program contribution be considered a significant point of differentiation.²⁰
- 3.14 Others proposed two threshold points, so that three streams would exist. One such model was that of the VicHealth program in Victoria, which has a \$10,000 ceiling for program contributions sought by small

17 Mr Trevor, Wide Bay Burnett ACC, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.26; Ms Admans, Foundation for Rural & Regional Renewal, *Official Committee Hansard*, Ballarat, Wednesday, 6 August 2008, p.35.

18 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.107.

19 Mr Russell, Central Murray ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.16; Clr McLean, Central Victoria ACC, *Official Committee Hansard*, Ballarat, Wednesday, 6 August 2008, p.17.

20 Mr Iaccarino, Melbourne's North & West ACC, *Official Committee Hansard*, Ballarat, Wednesday, 6 August 2008, p.16; Mr Buckley, Regional Cities Victoria, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.40; Mr Keenan, Economic Development Australia, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.20; Ms Dorn, BGT Employment, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.50; Clr McLean, Central Victoria ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.17.

grants, a range of \$10,000 to \$100,000 for middle-order grants, and an upper category for applications which seek more than \$100,000 from the program.²¹

- 3.15 The Committee agrees with proposals for differentiating between grant applications on the basis of the amount of money sought from the program. In the Committee's view, this holds out the prospect of increasing access to the program by applicants and rationalising administrative work-loads, and management of risk, by applying a greater level of scrutiny where projects involve a greater contribution from the federal government. The Committee noted that this should result in an enhanced capacity by the DITRDLG to process applications, and to perform other administrative processes associated with the program, in a timely fashion.

Recommendation 13

- 3.16 **The Committee recommends that there be a sliding scale of complexity for forms and of information requirements for applications, commensurate with the level of contribution sought from the program, and thus the level of risk to which the Commonwealth is exposed if the application is approved.**

Recommendation 14

- 3.17 **The Committee recommends that applications be separated into three streams: those seeking less than \$50,000 in contribution from the program, those seeking between \$50,000 and \$250,000, and those seeking more than \$250,000.**

Integration of state, local, and Commonwealth Government applications

- 3.18 According to former applicants and RDA representatives, further difficulties in the RPP application process stemmed from differences in administrative settings in different tiers of government: state, territory and federal.

21 Ms McCann, Melbourne East ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.37.

- 3.19 With respect to applications, the Committee heard that applicants were often obliged to invest considerable amounts of time in order to conform to the formats and expectations imposed under grants schemes in different tiers of government.²² This was a particular feature of the RPP because, as a partnerships program, applications necessarily entailed synchronising contributions from a variety of funding bodies, governments among them.
- 3.20 Differences in closing dates of grants programs were noted as a special difficulty. Mismatches in round scheduling, for example, could result in one jurisdiction requiring funds to be expended before another was ready to disburse funds.²³ Indeed, it has been suggested that one of the chief virtues of the open application process employed under the RPP was that it countered the influence of these differences, allowing greater opportunities for synchronisation between the RPP and other grant programs.²⁴
- 3.21 Similar difficulties were identified for definitions, by each tier of government, of the different geographical areas they define for the purposes of program administration. Where these definitions are significantly different, it imposes a further obstacle to applicants who wish to establish funding combinations involving more than one layer of government.²⁵
- 3.22 Contributors to the inquiry, such as program clients and program facilitators, suggested ways to resolve these differences. It was proposed that delineations of area for the purposes of a program work best when they define 'communities of interest': where communities united by an area boundary have sufficiently strong interests in common to allow effective planning and administration.²⁶ This proposal holds out the possibility that regions or areas could be defined on the basis of comparatively objective criteria, on which

22 Mr Buckley, Regional Cities Victoria, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.32; Mr Ray Hortle, ACC - Albury Wodonga, *Submission No.188*, p.11; Mr Crouch, Sunraysia ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.29.

23 Mr Crouch, Sunraysia ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.29.

24 Ms Linley, Regional Development Victoria, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.40.

25 Mr Ferrie, Department of Planning & Community Development (VIC), *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.25.

26 Mr Iaccarino, Melbourne's North & West ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.16.

local, state and federal governments would be more likely to find agreement.

- 3.23 From the perspective of governments, however, this may appear more difficult: constitutional distinctions between layers of government are reflected in a history of distinct separation at a practical level. Uniform processes may also be regarded, from a governmental point of view, as similarly difficult to achieve.
- 3.24 Recognising both the significance of these differences, and challenges in resolving them, the Committee proposes an evolutionary approach toward harmonisation of regional boundaries and administrative processes. The Committee proposes that if the state and territory based assessment panels outlined in Recommendation 11 of this report are adopted, that they be used as the vehicle through which to identify and respond to differences between federal and other governments, which would otherwise present undue obstacles to applicants and projects. This would allow the new program to drive reform in this area, without obliging it to wait on change from an external source.

Prescriptive process with understood timelines

- 3.25 Contributions to the inquiry attested to the sense of uncertainty generated by variable time-lines under the former program, a lack of known parameters in this regard, and resulting costs and other consequences. An alternative is to create timelines for the application process – including assessment, final decisions and notification, announcement and feedback – that are binding on the DITRDLG, and clearly communicated to program clients.
- 3.26 Program design is implicated in this. The open rounds format of the RPP, in which applications were accepted at any time, is less well-suited to the establishment of reliable time parameters for application assessment. Closed rounds, in which applications are accepted within a certain window of time, with the undertaking that a decision will be made by a particular date, provide better support. Adopting this approach would allow this, and other dimensions of program management, to be made more predictable. The issue of closed rounds is discussed further below.

Assisting applicants

- 3.27 Under the RPP, the ACCs performed a range of functions. In general, they have been a point of interface between the Commonwealth Government and regional communities, both gathering and disseminating information. As former applicants to the program have attested, ACCs often rendered considerable assistance and support to applicants, having a better appreciation of the format and standard of application required by DOTARS.²⁷
- 3.28 The Committee notes that the role of RDA is to be determined. One possibility is that its role will be largely of a consultative nature, advising government on regional affairs rather than directly assisting applicants to the new regional development scheme. This would be consistent with the second option canvassed in Recommendation 8 of this report. In Recommendation 9, administrative functions previously shared between ACCs and DOTARS' regional and central offices, would be performed by DITRDLG, either in a central office, or by the DITRDLG field officers.
- 3.29 If the Government decides that the DITRDLG should undertake the primary applicant assistance role (as recommended in option two of Recommendation 8), the Department needs to ensure that sufficient resources are put in place so that it can replace functions hitherto undertaken by ACCs, and regional offices. A particular focus must be to assist proponents with their applications. The Committee notes that the DITRDLG would be obliged to take deliberate measures to foster effective relationships between program clients and program officers to ensure the new program's success. Such measures could include locating field officers within RDAs, local government or Commonwealth Government programs located in regions, as is the case with AusIndustry or AusTrade. The DITRDLG will also be obliged to guard against potential conflicts of interest due to the application being developed and assessed by a single organisation.

27 Mr Nick Machan, Tulgeen Disability Services, *Submission No.106*, p.1; Ms Jean Brewer, PERFEX Working Group, *Submission No.136*, p.2.

Recommendation 15

- 3.30 If the Government decides that the DITRDLG should undertake the primary applicant assistance role (as recommended in option two of Recommendation 8), the Committee recommends that DITRDLG build capacity and staff expertise such that the Department is capable of acting as a single point of contact for applicants, providing advice, feedback and application writing and development capabilities with regard to the program.

Recommendation 16

- 3.31 If the Government decides that the DITRDLG should undertake the primary applicant assistance role (as recommended in option two of Recommendation 8), the Committee recommends that the DITRDLG assign staff to manage the program for particular regions, allowing them to develop and retain that expertise with respect to those regions.

Options are to:

- entrust responsibility for particular regions to identified staff in the DITRDLG central office; or
- entrust responsibility for particular regions to identified DITRDLG field officers based in regional areas.²⁸

Recommendation 17

- 3.32 If the Government decides that the DITRDLG should undertake the primary applicant assistance role (as recommended in option two of Recommendation 8), the Committee recommends that the DITRDLG provide resources such that there are sufficient staffing levels, and sufficient staff travel to regions or staff located in regions, to allow one-to-one support for applicants, including for application drafting, and related matters such as engaging with prospective funding partners.

28 An example of this exists in Victoria where single regional field officers are located in each of the State's regions with the job of assisting applicants to access state government programs and work up applications to the Regional Development Infrastructure Fund.

Paul Neville MP – alternate comment

Alternative Recommendation 16

I recommend that the DITRDLG assign staff to manage the program for particular regions, allowing them to develop and retain that expertise with respect to those regions. It should:

- entrust responsibility for particular regions to identified DITRDLG staff based in regional areas; and
- establish 13 small regional offices, 3 in Queensland, 3 in New South Wales, 2 in Victoria, 2 in Western Australia, and one each in the other States and Territories.

Developing applications

- 3.33 ACCs often performed an informal filtering role where the application was considered unlikely to attract funding in its present form.²⁹ Contributors to the Inquiry suggested that this reduced the cost of program administration.³⁰ However, ACCs were not empowered to perform this function in a formal sense, and this left them – and consequently the program – open to risk and uncertainty.³¹
- 3.34 The Committee also heard from the DITRDLG that 80 per cent of applications to the former program, whether they had been through an ACC or not, were insufficiently developed to allow the assessment process to begin on receipt of the application, and that this made a significant contribution to the long assessment periods noted elsewhere in this report.³²
- 3.35 In the Committee’s view it would be beneficial to clarify informal practices under the former program in this regard, so that formal Expressions of Interest become a standard first step for all applicants.

29 Mr Crouch, Sunraysia ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.24; Mr Eastoe, Albury Wodonga ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.30.

30 Mr Trevor, Wide Bay Burnett ACC, *Official Committee Hansard*, Toowoomba, Monday, 21 July 2008, p.19.

31 Mr Crouch, Sunraysia ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.24.

32 Mr Angley, DITRDLG, *Proof Committee Hansard*, Canberra, Monday 13 October 2008, pp.32-33.

- 3.36 In this proposed process, RDAs or departmental field officers would work with proponents to develop Expressions of Interest to the point where they can be accepted as fully-fledged applications under the program. It is anticipated that such a process, in which a clear delineation is made between application development and assessment, would reduce the length of time needed for assessment, and improve the transparency of the application process as a whole.

Recommendation 18

- 3.37 **The Committee recommends that for all applications, Expressions of Interest are to be lodged with the program prior to applications being lodged, and that:**
- **the primary objective of the Expression of Interest process is to develop applications;**
 - **Expressions of Interest are to be accepted at any time of year;**
 - **Expressions of Interest are to receive feedback and assistance sufficient to allow further development of application, or to allow applicants to approach another, more suitable program; and**
 - **Expressions of Interest and feedback are to go on file, as part of the evidence upon which assessments are made, for those projects which develop into applications.**

Open or closed funding rounds

- 3.38 For non-profit projects, the former program accepted applications at any time of year, regardless of the size of contribution sought. Each application was assessed by DOTARS, which forwarded applications with the results of that assessment attached as advice to Ministerial decision-makers. Ministerial decision-makers then approved, or did not approve, applications individually and at their discretion, rather than by ranking them against a field of other applications.
- 3.39 It is thought that this combination of arrangements made the program more difficult to administer, in that DOTARS was unable to be certain about the weight or status accorded its advice.³³ As noted, the

33 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.84-85, 447-448.

doctrine of ministerial discretion over application approvals obliged DOTARS to perform due diligence on all applications, regardless of merit, and it proved unable to meet its obligations in this regard.

- 3.40 These elements of program design were problematic for all parties involved in the process. Program clients were unable to be certain about the parameters of the program, and this made writing applications difficult, as it did their assessment by DOTARS.
- 3.41 A more common practice is for grants programs to consider applications in a series of rounds, which open and close on nominated dates. Applications for each round are then considered in a group, and ranked according to program criteria. This is generally considered a more transparent and reliable method of arriving at application approvals, in that the ranking process provides a further layer of assessment, in combination with attention to program criteria.³⁴
- 3.42 There are other administrative benefits attributed to funding rounds. Under this process the relationship to overall program budget is more readily perceived, and there is a clearer perception of how much is to be allocated at a given time. Because rounds entail processing of batches of applications, timeliness is also better supported by this model.
- 3.43 Some elements of the former program were better supported by the open applications process. As noted, one important attribute was that it compensated, to a degree, for differences in closing and acquittal dates employed by funding agencies in the states and territories.³⁵ Program clients also expressed positive views of being able to apply at any time of year.³⁶
- 3.44 The Committee takes the view that strong concern over lack of timeliness under the former program, and about a lack of transparency and certainty, warrant the adoption of a rounds process for grant applications: a significant number of contributors to the inquiry indicated timeliness as a primary concern.
- 3.45 The Committee accepts that some applications take longer to process than others, due to the higher level of due diligence and other
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34 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.189, 386.

35 Ms Linley, Regional Development Victoria, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.40.

36 Mr Budge, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.42.

preparatory work necessary where applications seek a higher level of contribution from the program. With this in mind, the Committee proposes two separate funding rounds for the application streams recommended above.

Recommendation 19

- 3.46 **The Committee recommends that regular, closed funding rounds be adopted for all streams, specifically:**
- **three-monthly rounds for less than \$50,000; and**
 - **six-monthly rounds for more than \$50,000, including applications seeking a \$50,000 - \$250,000 contribution from the program and those seeking more than \$250,000.**

Paul Neville MP – alternate comment

Alternative Recommendation 19

I recommend that regular closed funding rounds be adopted for all (except those for deprived regions and larger grants above \$500,000), namely:

- 3-monthly rounds of grants to \$50,000;
 - 6-monthly rounds for applications seeking between \$50,000 and \$500,000;
 - rolling round of \$50,000 to \$2.5 million for deprived regions or declared areas within regions;
 - a rolling round from \$500,000 to \$7.5 million for major projects; and
 - emergency grants in exceptional circumstances to \$500,000 on Ministerial direction and with a 3-month application completion provision.
- 3.47 As noted above, the Committee acknowledges that the adoption of closed competitive funding rounds for the program, without harmonisation of application dates between federal and other jurisdictions, presents problems for some partnership projects. The option of assessment panels in each state and territory could be a

vehicle through which federal representatives, and those of the states and territories, will identify and work to resolve problems in this regard (see discussion regarding state and territory based assessment panels in Chapter 2). In addition to conducting a process to harmonise these facets of state, territory and federal programs, it is anticipated that Assessment Panel members would be in a position to negotiate optimum time-frames for the funding of particular grant applications to minimise the ill-effects of differences between programs.

Assessments

- 3.48 Contributions to the inquiry show that under the former program the assessment process occasioned concern amongst a number of participants. As noted, there were widespread perceptions that the period of time from lodging an application to being notified of an outcome was excessive, and that the process was both less transparent and less predictable than anticipated.³⁷
- 3.49 It appears that for applicants there was a significant disjunction between the experience of preparing an application and having it assessed. Preparing an application involved a consultative, regionally-based process where applicants worked in close cooperation with other local organisations, particularly the local ACC and local government. Contributors to the inquiry suggested that this process in itself was an important positive effect of partnership grants schemes, in that it created new working relationships, and consequently social capital, in regional areas.³⁸
- 3.50 While the RPP appears to have been designed, in part, to foster such outcomes, its assessment process was not entirely consistent with them. While the partnership model in the program acted as a valuable social catalyst, the process of assessment has, in part, reduced the full benefits of this effect.

37 Mr Trevor, Wide Bay Burnett ACC, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.19.; Mr Xynias, Greater Brisbane ACC, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.55; Mr Russell, Central Murray ACC, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.31.

38 Ms McCann, Melbourne East ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, pp.29, 45.

Assessment models

- 3.51 By contrast, Regional Development Victoria employs a similar, but more thorough model which keeps the process closer to regional stake-holders. In this model, departmental officers work closely with potential aspiring applicants to the program, acting as facilitators, among other things, to support the application process.³⁹ RDV officers foster partnerships, identify opportunities, encourage applicants to initiate projects, and provide feedback on applications.⁴⁰ There is no formal Expression of Interest process,⁴¹ but through its close involvement with applications from their inception, RDV is able to filter applications effectively.⁴²
- 3.52 Responses to applications are made in considerably shorter time-frames than for the RPP: in as little as two-weeks, despite the program's open application process.⁴³ This provided considerable benefits in ensuring that applications did not go out of date while being considered for funding.⁴⁴
- 3.53 In essence, this approach combines, under program management, the components that were separated under the RPP, where facilitation was done at arm's length by ACCs, then assessed by DOTARS.
- 3.54 Should the DITRDLG undertake the primary assistance role (point 2, Recommendation 8), then the Committee is of the belief that there would be clear benefits in integrating facilitation of applications and assessment in the one department. Alternately, should RDAs be tasked with assisting proponents (point 1, Recommendation 8), then the former RPP model of ACC facilitation with DOTARS assessment, would have to be employed again. In either case, sufficient resources will need to be allocated to the DITRDLG in order for assessments to be performed effectively.

39 Mr Budge, *Official Committee Hansard*, Wednesday, Ballarat, 6 August 2008, p.18.

40 Mr Sharp, Regional Cities Victoria, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.31.

41 Mr Budge, *Official Committee Hansard*, Ballarat, 6 August 2008, p.18.

42 Mr Sharp, Regional Cities Victoria, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.23.

43 Mr Budge, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.42; Ms Linley, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.40.

44 Mr Budge, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.42.

Recommendation 20

- 3.55 **The Committee recommends that the Regional and Local Community Infrastructure Program be supported with sufficient resources to allow the DITRDLG to assess applications effectively.**

Assessment criteria

- 3.56 Contributors to the inquiry have suggested that, under the former program, it was difficult for applicants, ACCs, or even departmental staff to establish a clear sense of assessment criteria. Rather, grant applicants had the sense that 'goal posts were being shifted', and ACCs perceived a need to 'seek inside information' to gain a sense of program priorities at any given time. This situation, which appears to have been a product of insufficient communication, combined with ways in which ministerial discretion was exercised, is said to have contributed to perceptions of political bias in the administration of the program.⁴⁵
- 3.57 In the Committee's view, this underscores the importance of clear and effective dissemination of assessment criteria for the new program, amongst applicants to the program and staff of the administering department. Elsewhere this report recommends that where ministerial decision-makers diverge from departmental advice on program applications, the reasons should be recorded. As noted, this is consistent with the recommendations of the ANAO: that reasons be recorded and that FMA Regulations be amended to make this a mandatory requirement.⁴⁶
- 3.58 Better definitions of key elements of the new program are a further means to avoid some of the drawbacks of the RPP. A key improvement in this respect depends on the clarifications of regional plans, and their ownership, recommended in Chapter 2 of this report. There are also further advances to be made by arriving at better definitions of other elements of assessment criteria that were identified as problematic for the former program. Each of these makes a contribution to the relative ease or difficulty with which applications are approved. As applicants have told the inquiry, too

45 ACC - Illawarra, *Submission No.1*, p.2.

46 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.90-92, 93.

many unfavourable conditions amount to a filter that can be unduly difficult to overcome.⁴⁷ On the other hand, clarification of such criteria can facilitate the drafting of applications, and render them more likely to succeed.⁴⁸

Partnership requirements

- 3.59 As already noted, the partnership funding model was an integral part of the former RPP. For assessment criteria, this was expressed as the requirement that, for each application considered, a particular proportion of project budget would be provided by applicants and their partners, and a particular proportion by the program.
- 3.60 Although definitions varied over the life of the program, in general the requirement for not-for-profit applications was that the applicants and partners would contribute more than 50 per cent of project budget.⁴⁹ Requirements for for-profit applications were higher, but are not considered here as this report does not recommend their inclusion in the future program.
- 3.61 Under the former program, applications that showed applicants and their partners together contributing more than half of project budget were in general rated more favourably.
- 3.62 Contributors to the Inquiry expressed concern that these requirements could result in problems with equity. Less prosperous regional communities were less likely to be able to provide money, as applicants, or to find willing partners with the financial wherewithal to contribute.⁵⁰
- 3.63 Documentation for the RPP specifically stated that economic circumstances could be grounds for waiving strict application of the requirements for a certain proportion of the project budget to come from applicants and partners.⁵¹ It is notable that although this was specifically indicated in written guidance to assessors, there remained

47 Ms McCann, Melbourne East ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.29.

48 Ms Lewis, Southern Inland Queensland ACC, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.59.

49 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.265-266.

50 Cr O'Brien, Murweh Shire Council, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.15.

51 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.265.

a perception amongst applicants that this flexibility was not available under the program.⁵²

- 3.64 This underscores the need for reliable definitions and effective communication with stakeholders, for those circumstances where partnership requirements may be modified. Applicants from regional areas facing particular economic hardship are an important instance of this. This should be characterised in formal terms, so that adaptations of this nature can be made to program requirements without causing undue uncertainty.

Viability

- 3.65 Under the former program, applicant and project viability were both part of assessment considerations for projects. This dimension of assessment proved to be a challenge for DOTARS. Due to an apparent lack of financial expertise and capacity, the Department was unable to generate, or to commission financial assessments from third parties, and in a reliable way provide that as part of its advice to ministerial decision-makers.⁵³
- 3.66 These challenges were particularly evident in relation to for-profit applications. However, this report recommends that for-profit applications no longer be accepted. This reduces, but does not remove, the necessity for viability assessments for applicants and projects under the scheme.
- 3.67 In view of shortfalls in capacity under the former program, deliberate action must be taken by the Department managing the program to ensure that sufficient, thorough viability and other financial analysis be undertaken so that the Department can meet its due diligence obligations.
- 3.68 The Committee acknowledges the challenges involved in attracting and retaining staff with specialist skills in the current labour market. The Committee proposes a combination of senior staff skilled in these areas, to champion improved practice in this area, with continued, more consistent use of third-parties to provide this technical analysis.

52 Cr O'Brien, Murweh Shire Council, *Official Committee Hansard*, Toowoomba, Monday, 21 July 2008, p.15.

53 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.447.

Recommendation 21

- 3.69 **The Committee recommends that the DITRDLG increase its capacity to perform viability and other financial analysis on applications lodged under the program, through a combination of senior appointments requiring these skills, use of third-party providers, and training for departmental staff.**

Competitive neutrality

- 3.70 A further dimension of application criteria that proved challenging, and at times confusing, for applicants were requirements relating to so-called “competitive neutrality”. This term was used to indicate instances where the funding of an application would provide the applicant with an undue advantage over another provider of that good or service. This criterion was framed with for-profit applications in mind, but has also been applied to not-for-profit projects.⁵⁴
- 3.71 In general, apparent disparities in requirements caused considerable confusion amongst applicants, and competitive neutrality appears to have been a particular instance of this. Some contributors to the inquiry suggested that this criterion had been given undue weight in the RPP process, and had made it difficult for applications in some areas of activity to succeed.⁵⁵
- 3.72 While there were a number of contributors who raised concerns, few solutions were offered beyond relaxing the requirement. However, one contributor to the inquiry argued that adopting a ‘fresh legislative policy’, expressed as mild levels of reform, was the most efficient way to resolve these problems.⁵⁶ The Committee takes the view that this approach has merit and should be investigated.
- 3.73 The Committee is also aware that there were perceptions that the criteria for RPP was constantly shifting.⁵⁷ To avoid perceptions of

54 Mr Iaccarino, Melbourne’s North & West ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.36.

55 Mr English, Orana ACC, *Official Committee Hansard*, Dubbo, Tuesday 12 August 2008, p.51 ; Ms Bentick, Central NSW ACC, *Official Committee Hansard*, Dubbo, Tuesday 12 August 2008, pp.51-52; Mr Clements, Gowest Regional Development Fund, *Official Committee Hansard*, Dubbo, Tuesday 12 August 2008, pp.52-53.

56 Mr Clements, Gowest Regional Development Fund, *Official Committee Hansard*, Dubbo, Tuesday 12 August 2008, pp.52-53.

57 Ms Lewis, Southern Inland Queensland ACC, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.59; Illawarra Area Consultative Committee, *Submission no.1*, p.2.

changing criteria in the new program, the Committee is of the opinion that criteria should be set for a defined period of time.

Recommendation 22

- 3.74 **The Committee recommends that the DITRDLG define key assessment criteria in the clearest possible way, and act to ensure that applicants and departmental staff are aware of these criteria. Criteria should be set for a defined period of time.**

Final decisions

- 3.75 The way decisions were made under the former program was a key part of its character. As noted, the full process saw applications lodged after: development and an informal filtering process associated with ACCs, followed by further processing by DOTARS' regional-based officers and the Department's central office, together with any further financial analysis which the Department commissioned from third-party providers. The process up to this point resulted in advice which was attached to applications before they were put before ministerial decision-makers for a final determination.

Ministerial discretion

- 3.76 This program design had a number of effects. First, the nature of the involvement of Ministers in decision-making allowed Ministers to have a direct impact on policy as it was expressed in the program. As noted in the ANAO audit report on the program, this entailed 'considerable' decision-making flexibility for Ministers.⁵⁸
- 3.77 This was part of an overall flexibility that has been considered a strong point of the former program. On this basis, it could support innovative projects, including those that would otherwise 'fall between stools' because they involved more than one portfolio area.⁵⁹

58 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.387.

59 Dr Stone MP, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.25; Mr Hansen, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.52.

This flexibility was a key part of the program from its inception, and did, in fact, allow the program to fund a variety of project types.⁶⁰

- 3.78 Some other consequences of ministerial decision-making were less positive. A negative effect was that the nature of Ministers' direct involvement in decisions over applications was seen as calling the political neutrality of the program into question, and this affected the program's status in the eyes of stakeholders.⁶¹ The former government responded to these perceptions by creating a Ministerial Committee to consider applications, with the object of improving transparency and reducing time-lines for decision-making.⁶² It is unclear whether this change in design achieved either of its intended effects.⁶³
- 3.79 Another effect of Ministerial discretion, as it was exercised under the former program, was that decisions were made at variance with program guidelines, and with advice tendered by DOTARS.⁶⁴ This contributed to a sense of uncertainty about the status of those guidelines, and appears to have had a negative effect on compliance within DOTARS. The consequences of this pattern of decision-making were increased because reasons for these departures from guidelines and advice were often not recorded and were not required to be recorded under current FMA Regulations. A number of the recommendations of the ANAO Audit Report were framed to address this and related matters.⁶⁵
- 3.80 The funding of election commitments under RPP, also a function of the program's flexibility, was considered to have had a further negative effect on both perceptions of the program and standards of public administration. Representatives of the ANAO, appearing before the Committee, advised that there were other avenues through which to fund election commitments, other than through such

60 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.12, 14, 33; Mr Ian McPhee, ANAO, *Submission No.49*, p.1.

61 Mr Graham, Mount Isa Townsville Economic Zone, *Official Committee Hansard*, Cairns, Friday 25 July 2008, p.37; Mr Wallace, Northern Tasmania Development, *Official Committee Hansard*, Launceston, Monday 4 August 2008, p.5.

62 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.39-40 & ff.

63 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, Figure 2:3:2, p.104.

64 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.75-76, 77 & ff.

65 See ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.82-91, and Recommendations 2, 6 & 7, pp.93, 183, & 190.

programs, which do not produce the negative consequences seen when the RPP was used for this purpose.⁶⁶

- 3.81 In the Committee's view, a constructive approach to the new program is to maximise the benefits of the program's flexibility while reducing the risk this method of decision-making entails. This risk is that, as under the former program, it could lead to a perception that program administration falls below acceptable standards of public administration and ministerial discretion.
- 3.82 There are still some outstanding issues relating to the FMA Regulations and relevant sections of the ANAO report, which the Committee intends to examine in further detail in its final report. Nevertheless, the Committee endorses, and highlights the importance of, changes to the FMA Regulations as recommended by the ANAO Audit Report – that Ministers (or other approvers) be obliged 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'.⁶⁷ The Committee understands that the Department of Finance is currently reviewing regulations regarding the administration of government grants and will make recommendations to the Commonwealth Government.
- 3.83 Changes to the FMA Regulations will also reinforce Ministerial responsibility for the new program. For example, if Ministers are required in the future to record the basis upon which they have chosen to execute their duties under FMA Regulation 9 (expenditure represents efficient and effective use of the public money), then any breaches of FMA Regulation 9 will be recorded and therefore subject to the penalties for offences against the Regulations.

66 Mr McPhee and Mr Boyd, ANAO, *Proof Committee Hansard*, Canberra, Monday 13 October 2008, pp.28-29.

67 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.93.

Recommendation 23

- 3.84 **The Committee endorses the recommendation of the ANAO that Ministers (or other approvers) be obliged 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.**

The Committee recommends that the review of the FMA Regulations be expedited so that any changes are in place for the commencement of the new program.

- 3.85 The Committee notes negative consequences for program administration where ministerial decision-makers make frequent departures from program guidelines and departmental advice. However, ministerial decision-makers for the former program also retained a role in 'developing and approving Program Guidelines'.⁶⁸ In the Committee's view the consistent exercise of this power represents an avenue through which Ministerial decision-makers can exercise discretion over individual applications while informing, explicitly, both DITRDLG and applicants of program as to current priorities and parameters.

Recommendation 24

- 3.86 **The Committee recommends that ministerial decision-makers exercise discretion over applications, and shape program guidelines and administrative arrangements to accurately reflect program priorities.**

Unsuccessful applications

- 3.87 A number of contributors to the inquiry have noted the lack of appropriate feedback processes for unsuccessful applications in the

⁶⁸ ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.15.

RPP.⁶⁹ A situation whereby applicants are unable to ascertain the basis upon which their applications were unsuccessful may call into question the level of transparency in a program.

- 3.88 In order to address this concern, the RLCIP should have in place a process whereby unsuccessful applicants have the ability to ask for a briefing or explanation from DITRD LG as to why their application was not successful.

Monitoring and managing projects

- 3.89 While much attention has been given to the application and approval process in the former program, the ANAO Audit Report found that there were important ways in which processes, after approvals were made, could be improved. These included changes in ways Funding Agreements were managed, the timing of payments, project management, and acquittals.
- 3.90 The ANAO found that DOTARS was not, under the former program, always able to express the results of financial analysis, or conditions imposed with respect to approvals in the terms of Funding Agreements.⁷⁰ This was addressed in the Report's Recommendations 1 and 9, to which DOTARS agreed.⁷¹
- 3.91 For timing of payments, the ANAO found that the timing of payments to projects were made in response to the federal budgetary cycle rather than at times that would best fit for projects at their respective stages of development.⁷² As a result, a high proportion of first instalments paid to proponents were 50 per cent or greater of the total program contribution, and this was not considered the most efficient use of public money.⁷³

69 Centroc, *Submission No. 139*, p.6; Mid West Gascoyne Area Consultative Committee, *Submission No. 22*, p.12; Melbourne East Area Consultative Committee, *Submission No.96*, pp.8-9.

70 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.55, 58-59, 255, 330-331.

71 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, Recommendations 1 & 9, pp.59, 257.

72 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.510-11, 513, 516-527.

73 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, Figure 5:2.4, p.513.

- 3.92 The nature of project time-lines under the former program was such that the program was both unable to expend all of its appropriation and needed to seek approval from the Finance Minister to go beyond its appropriation, in successive financial years, due to the need for project payments needing to be entered against current appropriations.⁷⁴
- 3.93 As for facilitation and assessment of applications, the centralisation of functions in DITRD LG's central office will make it necessary for the Department to ensure that sufficient resources are devoted to project management and monitoring functions. Despite some inquiry participants' view that project management performed by regional offices was beneficial in ensuring that local circumstances were taken into account and understood, it appears that these functions were not carried out to an adequate standard by DOTARS' regional offices, which had carriage of them under the former program.⁷⁵ The new program will face similar challenges, and the Committee again notes the need for adequate resourcing to address these requirements.
- 3.94 As for other administrative functions, there are questions as to the degree to which project management functions can be packaged together with other functions, for the sake of economy, and the degree to which they require separation for the purposes of good public administration. An effective balance needs to be established between these two imperatives.

The acquittal process

- 3.95 The way acquittals were managed under the RPP reduced DOTARS' ability to ensure that expenditures were an efficient use of public money. The ANAO found that DOTARS' practice for the acquittals process fell below good standards of administration in a number of respects, notably that they were inconsistent, insufficiently thorough, and that they consequently formed an inadequate basis for further decisions on project funding.⁷⁶ The ANAO found that in a number of instances acquittals were either not provided by proponents, or were

74 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.50, 54-57.

75 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.578-579 ff, pp.590-591, 595.

76 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-2008*, pp.308, 355, 509.

provided with insufficient information, and that DOTARS' response had been inadequate.⁷⁷

- 3.96 The Committee believes a better standard of acquittals management is essential to the good administration and transparency of the RLCIP. The DITRDLG will therefore be obliged to ensure that it can bring sufficient expertise to bear on this issue, and to target its efforts in this respect, so that better levels of administration may be achieved.
- 3.97 Regarding information required prior to approval of projects, the level of information required for project acquittals should be commensurate with the amount of program contribution and therefore risk carried by the federal government.
- 3.98 In conclusion, the Committee wishes to note that with regards to the acquittal process there are still some outstanding issues which the Committee intends to examine in further detail in its final report.

Assessing project and program outcomes

- 3.99 The report of the Senate inquiry into the former program, and the ANAO report, both noted the connection between accurate assessment of project outcomes and that of program outcomes: project management tools can and should generate data that can be used to provide a basis on which to consider the success of the program as a whole.⁷⁸
- 3.100 Drafting of funding agreements provides an opportunity to set agreed project targets, and the means by which these will be verified. This clarifies targets for both proponent and funder, and creates a test for project success. Under the former program, this was hampered by inadequately framed and executed funding agreements – definitions were not written into funding agreements in every case and, where they were, were not always followed-up by DOTARS officers.⁷⁹ This serves further to underscore the importance of the Department

77 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 3, Report No. 14, 2007-2008*, pp.35, 79, 106.

78 Senate Committee Report, Finance and Public Administration References Committee, *Regional Partnerships and Sustainable Regions programs*, October 2005, p.39, cited in ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.613-614.

79 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, pp.602-610.

attracting sufficient expertise and capacity to support the new program.

- 3.101 The Committee believes 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. The Committee would also like to see language within all funding agreements which specifies the exact purpose of the funding received. Should a funding recipient fail to meet objectives stipulated within a funding agreement and not use funding for its intended purpose, this would constitute a breach of the agreement thereby providing the Commonwealth with a measure of redress.
- 3.102 These are challenges of bottom-up data gathering for program evaluation. However, the manner in which the former program's objectives were framed also presented top-down challenges in this regard.
- 3.103 The Senate Committee report into the program criticised the form of program objectives on the grounds that they were not sufficiently precise as to allow the program to be evaluated against its objectives.⁸⁰ Indeed, an analysis of the former program's Performance Indicators over its lifetime suggests that they were not framed, to a sufficient degree, around an overriding objective that would provide a test for its performance.⁸¹

80 Senate Committee Report, Finance and Public Administration References Committee, *Regional Partnerships and Sustainable Regions programs*, October 2005, p.93, cited in ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, p.493.

81 ANAO, *Performance Audit of the Regional Partnerships Programme: Volume 2, Report No. 14, 2007-08*, Table 5:1.1, p.492.

- 3.104 In the Committee's view, this suggests a need for further policy development that would allow the new program to retain the broad accessibility of its predecessor, in terms of the types of projects that will be considered for funding, while providing a more precise overall objective for the program.

Catherine King MP

Chair

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