

Audit Report No. 11, 2001–2002

Administration of the Federation Fund Program

Background

- 4.1 In May 1997, the \$1 billion Federation Fund was announced as part of the 1997–98 Budget, to fund a number of major projects of national significance to mark the Centenary of Federation in 2001. The Federation Fund program had three components:
- Federation Major Projects program (\$906.8 million);
 - Federation Cultural and Heritage Projects (FCHP) program (\$70.4 million); and
 - Federation Community Projects (FCP) program (\$29.8 million).
- 4.2 The Federation Major Projects program was set up to provide financial assistance to a number of major projects of national significance; to generate jobs in the construction phase; and to make a significant and ongoing contribution to Australia and the Australian economy. Projects were expected to be geographically spread around Australia and well advanced, but not necessarily complete, by 2001. Commonwealth monies were intended to either fully fund projects; augment existing funding; or match funding from other sources.¹

¹ ANAO, Audit Report No. 11, *Administration of the Federation Fund Program, 2001–2002*, Commonwealth of Australia, pp. 37–38.

- 4.3 The Prime Minister wrote to Premiers and Chief Ministers seeking nominations of major projects of national significance with a minimum of \$25 million per project as a guide. Projects, including those nominated from other sources, were to be considered on their individual merits although selected projects for funding should be 'of national interest'. The resulting proposals submitted ranged from cultural projects to church restorations; from road bridges to housing for research institutions. Many of the proposals were unsolicited and not from Premiers or Chief Ministers.²
- 4.4 Federal Ministers were closely involved throughout the selection process, culminating in the recommendation of projects by a Committee of eight senior Ministers to Cabinet and/or the Prime Minister for approval.³ The Prime Minister was the Committee Chair. A Federation Fund Taskforce was set up by the Department of Prime Minister and Cabinet (PM&C) to shortlist proposals and advise Ministers.⁴
- 4.5 By the end of August 1998, the Major Projects program was fully committed with the approval of some 40 major projects. Funding assistance for approved projects ranged from \$0.8 million to \$147 million with a median grant of \$10 million.⁵
- 4.6 Because PM&C considered that its role focussed on the facilitation of proposal selection by Ministers, PM&C did not see itself having any part to play in considering planning issues common to funding assistance programs.⁶ Once projects were approved, the ongoing management of selected major projects was transferred from the PM&C to ten other Commonwealth departments. These administering departments reported the progress of their respective funded projects to PM&C every six months.⁷

The audit

- 4.7 In Audit Report No.11 2001–2002, *Administration of the Federation Fund Program*, ANAO audited the Federation Major Projects

2 ANAO, Audit Report No. 11, 2001–2002, pp. 49, 51–55.

3 ANAO, Audit Report No. 11, 2001–2002, p. 38.

4 The Taskforce comprised seconded officers from key Commonwealth departments. ANAO, Audit Report No. 11, 2001–2002, p. 20.

5 ANAO, Audit Report No. 11, 2001–2002, p. 38.

6 ANAO, Audit Report No. 11, 2001–2002, pp. 19, 45–46.

7 ANAO, Audit Report No. 11, 2001–2002, p. 39.

program only, although it did examine the ongoing management of the FCHP program. This audit had been the subject of a review by the Committee. This current audit objective was to determine the extent to which the administration of the Federation Fund program met identified better practice for project management. ANAO focused on:

- policy development and program planning;
- the process of calling for, assessing, approving and announcing proposals; and
- ongoing program and project management.

4.8 ANAO based its examination on the better practice principles of rigour, transparency and equity which should be applicable to the selection of projects under funding assistance programs. The audit criteria for assessing the ongoing management of approved projects were drawn from the four key stages of the management cycle—planning, establishment, monitoring and evaluation.⁸

Audit findings

4.9 ANAO's findings may be summarised as follows:

- PM&C's advice to the Government and the rigour of the departmental assessment process would have been improved by program planning and analysis.
- Program planning and analysis would also have better facilitated:
 - (a) the transfer of projects to the administering departments
 - (b) their project monitoring; and
 - (c) evaluation of the program as a whole.⁹
- The initial assessments prepared by the Taskforce were inconsistent because of the lack of guidance for Taskforce assessors; the lack of program guidelines; and the lack of a quality assurance process.
 - ⇒ Consequently ANAO could not be certain that only the best proposals were shortlisted.¹⁰
- The quality of *Detailed Assessments* would have been improved by:

8 ANAO, Audit Report No. 11, 2001–2002, p. 39.

9 ANAO, Audit Report No. 11, 2001–2002, p. 19.

10 ANAO, Audit Report No. 11, 2001–2002, pp. 20–21.

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- ⇒ broader, better-structured, documented consultations within the Commonwealth; and
 - ⇒ consultations with State/Territory Governments (as was originally planned) and the private sector (for example, with construction analysts and business experts).¹¹
 - While All forty approved projects met the broad program selection criteria.¹²
 - ⇒ Less than half of all approved projects were proposals nominated by Premiers and Chief Ministers, although these accounted for approximately 60% of approved funding.¹³
 - ⇒ The majority of the Federation Fund proposals approved were rated by the Taskforce as medium or higher suitability for Federation funding, were from unsolicited sources and did not follow planned selection process¹⁴
 - The majority of projects were selected from January to August 1998, with most of the results being announced in September.
 - Unsuccessful applicants were not informed till early February 1999, more than five months after the last selected project had been approved.¹⁵
 - Although the management of approved Federation Fund projects by administering departments had generally been sound¹⁶, there were some shortcomings in PM&C's transfer of projects to administering departments, thereby affecting these department's capacity to plan, establish, monitor and evaluate projects.¹⁷
 - Actual disbursements continually lagged behind original and revised estimates while project estimated completion dates slipped by an average of four months.¹⁸
 - In some instances, funding payments were made to recipients without commensurate progress against milestones.¹⁹
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11 ANAO, Audit Report No. 11, 2001–2002, pp. 21, 24.

12 ANAO, Audit Report No. 11, 2001–2002, p. 25.

13 ANAO, Audit Report No. 11, 2001–2002, p. 28.

14 ANAO, Audit Report No. 11, 2001–2002, p. 15.

15 ANAO, Audit Report No. 11, 2001–2002, p. 30.

16 ANAO, Audit Report No. 11, 2001–2002, p. 17.

17 ANAO, Audit Report No. 11, 2001–2002, p. 31.

18 ANAO, Audit Report No. 11, 2001–2002, p. 32.

19 ANAO, Audit Report No. 11, 2001–2002, p. 31.

- No Commonwealth department had the responsibility for monitoring the collective performance of Federation Fund projects against program objectives.
 - ⇒ As a result, ANAO found that very little performance information on the achievement of the program's overall objectives had been collected or reported to the Parliament, although some agencies had reported on projects in their individual Portfolio Budget Statements and annual reports.²⁰

Committee concerns

- 4.10 When examining ANAO's Report No. 30, 1999–2000 *Examination of the Federation Cultural and Heritage Projects Program*, on the Federation Cultural and Heritage Projects Program, the Committee made two recommendations regarding grant programs. The Committee referred to these earlier recommendations in its review of Audit Report No. 11, 2001–2002. In addition, the Committee was interested in examining the following:
- Project and program management
 - Risk management
 - Program evaluation and accountability.

Application notification

- 4.11 In its *Report 380, Review of Auditor-General's Reports 1999–2000, Third Quarter*, referred to above, the Committee had recommended that:
- ...after the making of grant decisions, all applicants, successful or otherwise, should be notified of the decision as soon as possible in writing, advised of relevant appeal processes and provided with guidance for improving subsequent applications.²¹

20 ANAO, Audit Report No. 11, 2001–2002, p. 32

21 JCPAA, Report 380, *Review of Auditor-General's Reports 1999–2000, Third Quarter*, February 2001, Commonwealth of Australia, p.20.

- 4.12 This recommendation arose out of the manner of the announcements of the successful applicants in the FCHP program immediately prior to the 1998 October election. Not till after the 3 October 1998 election, was a 'bulk announcement', listing all successful and unsuccessful applicants, made following the mailout of all notification letters on 13 October 1998.²²
- 4.13 The Committee was therefore concerned to find that the time gap between decisions and announcements in the Major Projects program varied markedly 'from the same day to two years nine months...with a mean of some 50 days and median of 24 days'.²³ While just over 70 per cent of funded projects were announced less than one month after approval, unsuccessful applicants 'were not notified that their proposals were unsuccessful until early-February 1999, more than five months after the last of the selected proposals had been approved'.²⁴
- 4.14 Putting aside circumstances which may have determined this lapse, the Committee reiterates its earlier recommendation that all applicants, successful or otherwise, should be notified of the decision as soon as possible in writing and that those who were unsuccessful should be advised of relevant appeal processes and provided with guidance for improving subsequent applications.

Recommendation 3

- 4.15 **The Committee recommends that government agencies responsible for Commonwealth grants ensure that after grant decisions have been made, all applicants, successful or otherwise, be notified of the results as soon as possible in writing, advised of relevant appeal processes and provided with guidance for improving future applications.**

Project and program management

- 4.16 ANAO found that after the transfer of projects to administering departments, there was no evidence of continuing program-wide

22 See *Transcript*, 6 October 2000, pp. 14–16.

23 ANAO, Audit Report No. 11, 2001–2002, p. 85.

24 ANAO, Audit Report No. 11, 2001–2002, p. 88.

coordination of the Federation Fund program other than *ad hoc* informal consultations between PM&C and administering departments.²⁵ Furthermore, the Taskforce was disbanded before the transfer meetings so that the broad experience and specific project risks that were known to the Taskforce during the selection process were no longer available to the administering agencies.²⁶

- 4.17 Having reviewed the audit report and considered the evidence presented, the Committee believes that the Federation Fund program could have been better managed from the start if a Commonwealth agency had been formally assigned a coordinating role and given monitoring responsibilities before actual applications were sought.²⁷ A coordinating/ monitoring agency such as PM&C or the Department of Finance and Administration (DOFA) could have then drafted informative guidelines, acted as adviser to applicants and provided a preliminary risk assessment for each funded project. It would also have the responsibility for monitoring the collective performance of the program against overarching program objectives. Such coordination would have facilitated better sharing of experience and expertise across administering departments for the Federation Fund program.
- 4.18 To assist this suggested coordinating/monitoring agency, a steering taskforce could be appointed, comprising representatives of all relevant agencies. The chair of the steering taskforce would be a senior representative from the coordinating/monitoring agency. The taskforce would assist in developing project administration guidelines especially for the timing of payments, reporting requirements, performance measures and accountability procedures.

Recommendation 4

- 4.19 **The Committee recommends that in future funding programs of national significance, a Commonwealth agency be given coordinating and monitoring responsibilities.**

25 ANAO, Audit Report No. 11, 2001–2002, p. 93.

26 ANAO, Audit Report No. 11, 2001–2002, p. 94.

27 See *Transcript*, 31 May 2002, p. 54.

Risk management

4.20 When PM&C transferred the management of approved major projects to administering departments, there was little transference of information and few additional resources allocated to the task.²⁸ Because the Taskforce was disbanded before the transfer, it was not possible for PM&C to advise line agencies of the nature of the risks inherent in particular projects, particularly where the funding assistance was less than the amount sought.²⁹ In addition, many of the projects required administering departments to oversee the delivery of a project by a third party recipient of Commonwealth funds.³⁰ As a result, it appears that most administering departments had little awareness of the risks/issues associated with particular projects under their administration.

4.21 ANAO found that:

A distinctive feature of the Federation Fund Major Projects programme is the separation of the project assessment/selection and ongoing management responsibilities. The ANAO considers that certain risks arise out of this separation that, if not well managed, could adversely impact on the success of the programme.³¹

4.22 The major risks were spelt out by ANAO in its report:

- Administering departments were not informed about their responsibility for maximising the achievement of Federation Fund program objectives as opposed to merely acting as a source of funding.
- Because most administering departments were unaware of the information on which decision-makers selected the projects and based their decisions, it became unclear to what extent administering departments could manoeuvre during funding agreement negotiations with the recipients.³²
- The quality of the Federation Fund agreement deeds or memoranda of understanding were uneven and 'would have

28 ANAO, Audit Report No. 11, 2001–2002, p. 31.

29 ANAO, Audit Report No. 11, 2001–2002, p. 94.

30 ANAO, Audit Report No. 11, 2001–2002, p. 91.

31 ANAO, Audit Report No. 11, 2001–2002, p. 92.

32 ANAO, Audit Report No. 11, 2001–2002, p. 93.

been improved had their establishment been coordinated centrally'.³³

Formal administrative guidelines

- 4.23 In its report, ANAO emphasised that departments managing multiple projects needed formal guidelines, endorsed by senior management, to aid new project managers to gain a rapid accurate understanding of Federation Fund administration arrangements and contribute to the consistent management of projects over the two to three year implementation periods.³⁴
- 4.24 Only two departments—the Department of Industry, Science and Resources (ISR) and the Department of Communications, Information Technology and the Arts (DCITA)—developed comprehensive guidelines specific to the management of Federation Fund projects although neither of the departments had the guidelines endorsed by their departments' senior management at the time of the audit. This was unfortunate as ANAO reported that the guidelines were implemented with varying degrees of success across the projects examined.³⁵
- 4.25 When questioned at the public hearing, DCITA told the Committee it 'has had draft guidelines in place for some time' but was waiting for the ANAO best practice report on grant administration as it seemed 'appropriate to take into account any further advice from the Audit Office before they are released'.³⁶ ANAO told the Committee that its Better Practice Guide had already been launched.³⁷ DCITA then said its guidelines would be formally endorsed in the near future.
- 4.26 The Committee fully supports the need for formal guidelines and believes that the ANAO *Better Guide on the Administration of Grants* should be examined and adopted by Commonwealth agencies whenever they have grant management responsibilities.

33 ANAO, Audit Report No. 11, 2001–2002, p. 100.

34 ANAO, Audit Report No. 11, 2001–2002, p. 95.

35 ANAO, Audit Report No. 11, 2001–2002, p. 95.

36 K. Gosling, DCITA, *Transcript*, 31 May 2002, pp. 52–53.

37 M. Lewis, ANAO, *Transcript*, 31 May 2002, p. 53. The *Better Practice Guide on the Administration of Grants* was published on 15 May 2002 and is on the internet.

Recommendation 5

- 4.27 **The Committee recommends that the *Better Guide on the Administration of Grants* published by the Australian National Audit Office should be adopted by Commonwealth agencies whenever they have grant management responsibilities.**

Department of Communication, Information Technology and the Arts

- 4.28 In response to questions from the Committee about how it addressed risks, DCITA said it had developed comprehensive grant deeds or Memoranda of Understanding for its grantees, linking progress and payments to milestones. All its projects were administered by one section which worked closely with the grantees to overcome or minimise project risks, following a planning stage where risks were addressed prior to the projects commencing.³⁸ As DCITA said:

This enabled lessons learned from one project to be applied to others fairly easily and ensured a consistent approach was adopted to project management.³⁹

- 4.29 Where risks arose, senior staff were informed and sometimes visited projects which were having serious problems, thereby assisting 'a number of projects to get back on track'.⁴⁰ DCITA pointed out, 'some issues did not become apparent until projects were under way...and some matters which seemed settled at the beginning became problems later'.⁴¹
- 4.30 DCITA took its monitoring role very seriously and initiated a monthly report to its Secretary and its Minister. As a result, its project management has ensured that the Federation Fund program objectives for its projects have been met.⁴²

38 DCITA, Submission no. 16, p. 1.

39 DCITA, Submission no. 16, p. 1.

40 DCITA, Submission no. 16, p. 2.

41 DCITA, Submission no. 16, p. 2.

42 DCITA, Submission no. 16, p. 2.

Department of Environment and Heritage

- 4.31 The Department of Environment and Heritage (DEH) was directly involved with DCITA in the development and implementation of the FCHP program. All Federation Fund projects for which DEH had responsibility, with the exception of the Sydney Harbour Federation Trust (SHFT), were managed within the one area.⁴³
- 4.32 Because DEH had a representative on the Taskforce, it had access to risk assessment information for all the projects at the assessment stage.⁴⁴ DEH set up special steering committees comprising all key stakeholders for each project.⁴⁵ All information was supplemented by site visits and discussions with grantees prior to the development of deeds of agreement for the projects. Project risks were reviewed where changes in circumstances or the environment indicated a review was needed.⁴⁶ DEH stated that it sought to be proactive in its administrative role and required each grantee to provide periodic reports linked to financial milestones. DEH told the Committee at the public hearing:
- We assessed the risks associated with the projects across the board. On that basis we picked projects which we felt had a slightly higher risk in terms of project management. We adjusted our management accordingly.⁴⁷
- 4.33 In addition, DEH initially provided its Minister with monthly progress reports and then later, reports on an issues basis.⁴⁸

Other administrative agencies

- 4.34 Other administering departments had to cope with their responsibilities to the best of their abilities. As a result, there was little consistency in strategic and operational objectives, performance measures and evaluation criteria across the Federation Fund program. ANAO commented on the 'passive

43 ANAO, Audit Report No. 11, 2001–2002, p. 95.

44 DEH, Submission no. 17, p. 1.

45 DEH, Submission no. 17, p. 2.

46 DEH, Submission no. 17, p. 1.

47 A. Archer, DEH, *Transcript*, 31 May 2002, p. 60

48 DEH, Submission no. 17, p. 2.

monitoring' approach which prevailed in some administering departments.⁴⁹

- 4.35 ANAO found, however, that compensating factors did partially offset the risks resulting from the absence of formal administrative guidelines in some projects. For instance, the Department of Transport and Regional Services (DTRS) applied previously established program delivery mechanisms for the funding of land transport infrastructure as specified in the *Australian Land Transport Development Act 1988*. The Department of Agriculture, Fisheries and Forestry—Australia (AFFA) and the Australian War Memorial (AWM) were each responsible for managing a single project.⁵⁰
- 4.36 In its report, ANAO had highlighted a number of the risks which arose, especially where funding had gone to small community groups which often were unaware of their accountability responsibilities. In addition, the scope of some projects changed over time and so impacted on the project's achievement of value for money. Another risk was that some projects were delayed, thereby adversely impacting on the achievement of the overall program objectives.⁵¹ In other cases, the administering departments did not appear to assess progress reports against agreement requirements before making the next payments.⁵²
- 4.37 Some administering departments saw their role as having little, if any, responsibility for project management. They believed they were responsible only for providing Commonwealth funds and ensuring the recipients' compliance with the Commonwealth's legal and policy obligations. Consequently, this resulted in funding agreements that poorly specified the project, project milestones, the roles and responsibilities of parties; and reporting requirements that did not greatly assist the management of the project by the administering department.⁵³
- 4.38 Because administering departments had not been given additional resources to manage the projects transferred to them,

49 ANAO, Audit Report No. 11, 2001–2002, pp. 105, 110.

50 ANAO, Audit Report No. 11, 2001–2002, p. 95.

51 ANAO, Audit Report No. 11, 2001–2002, p. 97.

52 ANAO, Audit Report No. 11, 2001–2002, p. 101.

53 ANAO, Audit Report No. 11, 2001–2002, p. 97.

the costs had to be absorbed within existing appropriations. As one agency pointed out:

a requirement to absorb project administration costs and a consequent reliance on existing departmental expertise generates risks to program performance by the administering departments.⁵⁴

Program evaluation and accountability

- 4.39 In the absence of a coordinating agency, ANAO found that no Commonwealth department either individually or collectively undertook responsibility for monitoring project performance against Federation Fund program objectives. Consequently, very little performance information on the achievement of the program's overall objectives had been collected or reported to Parliament because there never had been any continuing whole-of-government oversight of the Federation Fund program.⁵⁵
- 4.40 Although project information had to be collected by the administering departments, PM&C did not specify the need to collect program outcome-related performance information from each project consistently across all administering departments. Therefore the six-monthly progress reports which administering departments gave to PM&C 'did not require administering departments to report on project performance against programme objectives'.⁵⁶
- 4.41 While some administering departments reported in their annual reports on the specific projects they were managing, others did not. ANAO found that DEH was the only department able to comprehensively evaluate its Federation Fund major projects because its FCHP standard funding agreement required recipients to report progress against program objectives. DCITA, on the other hand, had developed an evaluation database and commenced gathering program objective related performance information from recipients.⁵⁷

54 ANAO, Audit Report No. 11, 2001–2002, p. 101.

55 ANAO, Audit Report No. 11, 2001–2002, p. 107.

56 ANAO, Audit Report No. 11, 2001–2002, p. 107.

57 ANAO, Audit Report No. 11, 2001–2002, p. 108.

- 4.42 If a coordinating agency were appointed as recommended above, this coordinating agency would be required to report on the funding programs against its outputs in its annual reports.

Completion dates

- 4.43 One of the key Federation Fund program objectives was that projects should be 'well advanced, but not necessarily complete by 2001'. Appendix C shows the completion status of the major projects funded under the program as at 17 July 2002. Some were completed well before the expected completion dates while others have been delayed.

Project funding

- 4.44 In its original conception, the Federation Fund Major Projects funding was intended to fully fund projects, augment existing funding or match funding from other sources. On 1 September 1998, the full Ministry noted that approved Federation Fund projects exceeded the \$1 billion appropriated to the Federation Fund by \$6.8 million and that additional funds would be required.⁵⁸
- 4.45 The shortfall was met in different ways. For instance, when the Federation Fund projects were distributed to the administering departments to manage in March 1999, PM&C transferred to the DOFA, \$6.8 million less than the \$15.8 million approved from the Federation Fund for DOFA's project, the refurbishment of No.4 Treasury Place. DOFA, however, decided not to seek any extra appropriation and decided to use funds from its existing Capital Works Program to make up the shortfall.⁵⁹ Overall, more than a quarter of all approved projects received less than the amount sought by applicants.⁶⁰ Some were therefore placed at risk of not being able to complete the project if they could not make up the shortfall from elsewhere. Appendix D lists those projects which did not receive matching funds from non-Commonwealth sources. Those which are still not complete are listed in Appendix C.

58 ANAO, Audit Report No. 11, 2001–2002, p. 82.

59 ANAO, Audit Report No. 11, 2001–2002, p. 82.

60 ANAO, Audit Report No. 11, 2001–2002, p. 29.

Accountability

4.46 The Committee pursued the issue of public accountability. At the public hearing, it asked DCITA and DEH what each had done to ensure that value for money and full accountability occurred in the projects each managed.

4.47 DEH told the Committee that it had set up appropriate checks in its project administration. It had:

...requirements of independent audits of financial expenditure throughout the project, which required the receiving agency to go out and provide us with independently audited statements to show that the money they had received had been spent on the project appropriately. They had to break that down to a great deal of detail. That was done not just at the end but right through the project at various stages. They also had to provide us with other degrees of evidence in terms of the outcome reports, photographs and documentation of works carried out. In our case, they were all place-related heritage outcomes. We also had checks in place with our planning processes with both State bodies and with other heritage advisers on site, as well as our own visits, to make sure that they were complying with all the statutory requirements. They were some of the checks.⁶¹

4.48 DCITA told the Committee that it had similar requirements, including annual audits on larger projects. The projects also had to comply with a range of cultural requirements, including plans for the development of their collections and ensuring that they comply with federal and State responsibilities. DCITA project managers were required to take into account all the various items for each milestone before they paid the next instalment, discussing them with the grantees where there were any issues of noncompliance.⁶²

Sometimes we have had to wait for a significant amount of time to ensure that we got what we wanted. In some of the major projects where we felt they perhaps were not going to complete their buildings to the required standards, or where they were not going to have enough other money to

61 Archer, *Transcript*, 31 May 2002, p. 60.

62 R. Thorpe, *Transcript*, 31 May 2002, p. 60.

complete, they have had to demonstrate that other money was available.⁶³

Committee comments

- 4.49 The Committee had invited DCITA and DEH to its public hearing not only because they managed a large number of the major projects but because they had been commended by ANAO in its report. The Committee was re-assured from the evidence that both departments were fulfilling their responsibilities. It believes that other agencies can learn from their sound practices.
- 4.50 However, the Committee remains concerned that very little performance information on the achievement of the Federation Fund Major Projects program objectives have been collected or reported to Parliament. It believes that in future programs of national significance, this aspect needs to be incorporated into the program so that there is greater detailed public accountability for expenditure of public funds. If a coordinating agency were appointed as recommended above, this coordinating agency would be required to report on the funding programs against its outputs in its annual reports.

Recommendation 6

- 4.51 **The Committee recommends that a coordinating agency once appointed, will report on the funding programs it is overseeing against program outputs in its annual reports.**

63 Thorpe, DCITA, *Transcript*, 31 May 2002, p. 60.