

## Introduction

### Aim and scope of the report

- 1.1 This year, the federal government undertook to deliver ‘major investments in regional and local community, recreational and environmental infrastructure’ through the introduction of a regional and local community infrastructure program in the 2009-10 Budget.<sup>1</sup>
- 1.2 The new program is intended to replace the Regional Partnerships Programme (RPP), which was the subject of a 2005 Senate Committee inquiry<sup>2</sup> and a November 2007 Australian National Audit Office (ANAO) performance audit<sup>3</sup> – both of which found serious faults in the administration of the program.
- 1.3 The former program, The RPP, was managed by the Department of Transport and Regional Services (DOTARS). The new program, the Regional and Local Community Infrastructure Program (RLCIP) will be managed by the Department of Infrastructure, Transport, Regional Development and Local Government (DITRDLG).
- 1.4 In May 2008 the Minister for Infrastructure, Transport, Regional Development and Local Government gave this Committee the task of

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1 The Hon Anthony Albanese MP & the Hon Gary Gray AO MP, *Joint Media Statement*, 13 May 2008.

2 Finance and Public Administration References Committee, *Regional Partnerships and Sustainable Regions programs*, October 2005.

3 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No. 14, 2007-08.

investigating and reporting on options for the new funding program. The Minister gave the Committee the following terms of reference:

The Committee is to report on the Australian National Audit Office's Performance Audit of the Regional Partnerships Programme and make recommendations on ways to invest funding in genuine regional economic development and community infrastructure with the aim of enhancing the sustainability and livability of Australia's regions.

The Committee's report is to:

- Provide advice on future funding of regional programs in order to invest in genuine and accountable community infrastructure projects;
- Examine ways to minimize administrative costs and duplication for taxpayers;
- Examine the former government's practices and grants outlined in the Australian National Audit Office report on Regional Partnerships with the aim of providing advice on future funding of regional programs; and
- Examine the former government's practices and grants in the Regional Partnerships Programme after the audit period of 2003-2006 with the aim of providing advice on future funding of regional programs.

1.5 It was the Committee's intention to report to the Parliament by the end of November 2008. Throughout its deliberations, the Committee has been acutely aware of community concern regarding the need for a federal regional community infrastructure funding program. The Committee is also aware that in the context of the current global economic crisis the Government has signalled its intention to bring forward its nation building agenda. The Committee is of the view that, although on a smaller scale, the RLCIP has the potential to help stimulate growth at the local level. Therefore, in an effort to expedite this process and assist government decision making in its delivery of a replacement program, the Committee has chosen to issue this interim report.

1.6 The Committee's terms of reference do not extend to providing recommendations on the new roles and responsibilities for Regional Development Australia (RDA – formally Area Consultative Committees) as this is the subject of a separate government review. However, where the Committee has seen an intersection between the possible future roles and responsibilities of RDA and the RLCIP, it has provided comment.

- 1.7 This report is intended to provide the government with a brief description of the Committee's findings, and outline options on the structure of the new regional and local community infrastructure program. A final report will be issued at a later date.

## Conduct of the inquiry

- 1.8 The inquiry was advertised in *The Australian* on 28 May 2008 and in the Australian Local Government Association News on 30 May 2008. A press release was issued to regional media outlets on 15 May 2008 and sent to all Area Consultative Committees (ACCs).
- 1.9 The Committee also wrote to federal Ministers, state and territory governments, 54 ACCs, 48 state and territory Regional Development Boards, 73 Regional Organisations of Councils and a wide range of relevant businesses, associations and stakeholders inviting them to make a submission. In total, the Committee issued 198 submission invitation letters.
- 1.10 To date, the Committee has received 266 submissions from 263 parties. These submissions are listed in Appendix A. In addition, the Committee has received 19 exhibits which are listed in Appendix B.
- 1.11 The Committee held roundtables across Australia in: Toowoomba, Bundaberg, Cairns, Darwin, Perth, Launceston, Ballarat, Shepparton, Dubbo and Nowra and a public hearing in Canberra. The roundtables were advertised in *The Daily Telegraph*, *Melbourne Sun Herald*, *Brisbane Courier Mail*, *Adelaide Advertiser*, *The West Australian*, *Hobart Mercury*, *NT News*, *Burnie Advocate* and *Launceston Examiner* on 28 May 2008.
- 1.12 In total 192 witnesses appeared before the Committee at roundtables and public hearings. Details of the hearings and witnesses who appeared can be found in Appendix C.
- 1.13 Transcripts of the Committee's public hearings and copies of all written submissions are available for inspection from the Committee Office of the House of Representatives, the National Library of Australia or on the inquiry website:  
<http://www.aph.gov.au/house/committee/itrdlg/index.htm>

## Brief summary of the Australian National Audit Office Performance Audit of the Regional Partnerships Programme

- 1.14 The ANAO performance audit of the RPP was undertaken in response to a Senate Finance and Public Administration References Committee recommendation in its inquiry report on *Regional Partnerships and Sustainable Regions programs*.<sup>4</sup>
- 1.15 The audit assessed DOTARS' management of the RPP. The ANAO reviewed all departmental records relating to ministerial decisions under the RPP between 1 July 2003 and 30 June 2006. It also examined the assessment, approval and management processes applied to 278 successful and unsuccessful applications made by applicants from a representative sample of 11 ACCs.<sup>5</sup>
- 1.16 ANAO representatives told the Committee that a culture of poor administrative practice was evident in DOTARS' management of the program – a key factor being a lack of effective leadership by senior management.<sup>6</sup> They also observed that the level of concern over the administration of the RPP was reflected in the length of the report, some 1058 pages: the Committee was advised that it is unusual for the ANAO to prepare Audit Reports of this length.<sup>7</sup>
- 1.17 Identified in the ANAO report were serious problems with DOTARS' management of the RPP in the first three years of its operation. The report found that DOTARS' actions did not allow ministerial decision-makers to meet their obligations under the *Financial Management and Accountability Regulations 1997* (FMA Regulations): that is, that approvers of expenditures of public money did not:
- ... approve a spending proposal unless satisfied, after undertaking such inquiries as are reasonable, that the proposed expenditure is in accordance with the policies of the

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4 See Recommendation 16, Senate Committee Report, Finance and Public Administration References Committee, *Regional Partnerships and Sustainable Regions programs*, October 2005, p.xxii.

5 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol.1, p.16.

6 Mr McPhee, ANAO, *Proof Committee Hansard*, Canberra, Monday 13 October 2008, p.4.

7 Mr Boyd, ANAO, *Proof Committee Hansard*, Canberra, Monday 13 October 2008, p.4.

Commonwealth and will make efficient and effective use of ... public money.<sup>8</sup>

1.18 Whether the culture that emerged within DOTARS arose as a result of Ministerial behaviour or vice versa is a matter of conjecture.<sup>9</sup>

Whatever the case, meeting obligations under FMA Regulations is an essential requirement for good standards of public administration. However, the ANAO report showed that the administration of the RPP was compromised by inconsistency, in that:

- ministerial decision-makers frequently departed from departmental advice on applications;<sup>10</sup>
- ministerial decision-makers did not document reasons for so doing despite this being considered “good practice”;<sup>11</sup>
- applications were accepted and approved without scrutiny by ACCs or, in some cases, by DOTARS;<sup>12</sup>
- the results of financial analysis were not included in advice to Ministerial decision-makers by DOTARS;<sup>13</sup> and
- in instances where approvals were made subject to conditions, such conditions were reflected in Funding Agreements prepared by DOTARS.<sup>14</sup>

1.19 Other factors that compounded this included:

- the breadth of the program in terms of the types of projects it would fund;

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8 Regulation 9 of the *Financial Management and Accountability Regulations 1997*, quoted in ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol. 2, pp.50-51.

9 Mr McPhee, ANAO, *Proof Committee Hansard*, Canberra, Monday 13 October 2008, pp.10-11.

10 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol.2, p.52.

11 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol.2, p.52.

12 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol.2, p.71 & pp.75-81.

13 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol.2, pp.414-15.

14 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol 2, p.344.

- the use of an “open” format in which applications could be accepted and approved at any time of year (rather than in rounds, by cut-off dates); and
  - its design as a discretionary program in which ministers were directly involved with each decision.
- 1.20 Together, these factors generated a lack of certainty of approach, which made it difficult for the administering department to establish a culture of accountability and compliance. This is not to say that many good projects weren’t funded under the RPP. But the way in which decisions were taken, and the program administered, has undermined the program’s credibility. The RPP has, therefore, been viewed as significantly less transparent and accountable than is usually expected of public programs.
- 1.21 The Committee views the report of the ANAO as a serious indictment of the administration of the RPP. The new program, the Regional and Local Community Infrastructure Program (RLCIP), represents an opportunity for government to learn from serious shortcomings in the administration of the RPP.
- 1.22 The ANAO’s report made a number of recommendations to DOTARS designed to improve departmental procedures and practices, and the transparency and accountability of the program,<sup>15</sup> and a recommendation was made to the Department of Finance, designed to strengthen the framework which governs the expenditure of public money.<sup>16</sup> These are a basis for improved standards of management for the RLCIP.

## **A new regional and local community infrastructure program**

- 1.23 The Committee has been aware throughout its deliberations that there are many views as to how the new regional program should be structured. What has emerged from the 266 submissions and the 192 witnesses is that there is no clear consensus on how the new program should be structured.

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15 ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol 1, pp.121-131.

16 See Recommendation 2, ANAO, *Performance Audit of the Regional Partnerships Programme*, Performance Audit Report No.14, 2007-08. Vol 1, p.121.

- 1.24 Some submissions expressed strong views that for-profit organisations should not be funded under a new program;<sup>17</sup> others clearly had a contrary view.<sup>18</sup> Other submissions raised the possibility of a much stronger role for local government in both the application and assessment process<sup>19</sup> while others wanted a larger role for RDA in the decision making process.<sup>20</sup>
- 1.25 The type of infrastructure to be funded was also at issue in submissions, with some viewing it as essential that the new program fund business planning and feasibility studies,<sup>21</sup> while others clearly argued for funding hard infrastructure only.<sup>22</sup>
- 1.26 The Committee has in the course of its deliberations had to form a view on each of these issues. It has done so bearing in mind the seriousness of the ANAO report, the current review of the role of RDA, government statements in relation to the new program, alongside the submissions to the inquiry and witness discussions at roundtables around the country.
- 1.27 The Committee proposes that the government consider the following options in creating the new regional and local community infrastructure program. It is envisaged that the program will:
- establish well defined and clear objectives that sit within an articulated Commonwealth Government regional development policy;
  - retain the option of establishing sub-programs to direct funding to strategic priority areas or applicant groups;
  - cover all regions of Australia;

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17 Councillor Taylor, Toowoomba Regional Council, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.47; Area Consultative Committee Tasmania, *Submission no.183*, p.7.

18 Mr Keenan, Economic Development Australia, *Proof Committee Hansard*, Shepparton, Friday 8 August 2008, p.4; Mr Hansen, Geelong ACC, *Official Committee Hansard*, Ballarat, Wednesday 6 August 2008, p.14; State Government of Victoria, *Submission no.244*, pp.10-11.

19 Councillor O'Brien, Murweh Shire Council, *Official Committee Hansard*, Toowoomba, Monday 21 July 2008, p.6; Mr Church, Tableland Regional Council, *Official Committee Hansard*, Cairns, Friday 25 July 2008, p.48; Mr Pollock, North Queensland ACC, *Official Committee Hansard*, Cairns, Friday 25 July 2008, p.21.

20 RDACCQ, attachment to *Submission no.44*, p.10; Midwest Gascoyne Area Consultative Committee, *Submission no. 22*, pp.8, 12, 13.

21 Mr Willis, Hunter ACC, *Official Committee Hansard*, Dubbo, Tuesday 12 August 2008, p.15; PERFEX, *Submission no.136*, p.1; Macedon Shire Council, *Submission no.9*, p.2.

22 Lockyer Valley Regional Council, *Submission no.208*, p.1.

- employ a partnership model;
- predominantly fund hard infrastructure;
- have local government as the auspice agency for applications in a region with a requirement that local government contribute (whether by way of capital, maintenance or operational funding). Not-for-profit organisations that do not require a local government contribution would require a letter of support from local government and then be able to apply directly;
- either have a sub-program of funding to which community organisations, with local government support, only can apply; or where feasible, require that a set percentage of applications put forward by a local government area be from community organisations;
- exclude applications from for-profit entities;
- **(Recommendation 8)** either charge RDAs with the role of assisting applicants to develop their Expressions of Interest into an application; or have the DITRDLG undertake this role utilising either a regional field officer in each region or an officer allocated a specific region from either the national office or a regional office (where available);
- depending on Government decisions regarding Recommendation 8, ensure that officers of the DITRDLG:
  - ⇒ promote and publish information about the program;
  - ⇒ provide advice on Expressions of Interest;
  - ⇒ assist with developing applications;
  - ⇒ assess applications;
  - ⇒ develop expertise and provide a point of contact for each region;
  - ⇒ work in close contact with state government Regional Offices;
  - ⇒ draft and manage funding agreements; and
  - ⇒ evaluate project and program outcomes;
- depending on Government decisions regarding Recommendation 8, ensure that the DITRDLG invest significant time and effort in developing and recruiting staff with expertise in designated regions and in assisting local government and community organisations with developing expressions of interest into applications;



- employ a centralised assessment process for the RLCIP and possibly employ panels in each state and territory, with delegates from the three tiers of government and others (peak community organisations, economic development bodies, philanthropy groups and people with particular expertise), to provide recommendations on applications to the Ministerial decision maker;
- employ a sliding scale of complexity for forms and of information requirements for applications;
- separate applications into three streams: those seeking less than \$50,000 contribution from the program, those seeking between \$50,000 and \$250,000, and those seeking more than \$250,000;
- depending on Government decisions regarding Recommendation 8, ensure that the 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;
- depending on Government decisions regarding Recommendation 8, ensure 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 by either:
  - ⇒ entrusting responsibility for particular regions to identified staff in the DITRDLG central office; or
  - ⇒ entrusting responsibility for particular regions to identified DITRDLG field officers based in regional areas;
- depending on Government decisions regarding Recommendation 8, ensure that the DITRDLG be provided 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;
  - ⇒ ensure that for all applications, Expressions of Interest are to be lodged with the program prior to applications being lodged;
  - ⇒ have regular, closed funding rounds for all streams;

- ensure 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; and
- 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.

In addition, the proposed model entails that:

- Ministerial discretion over applications is retained with Ministers shaping program guidelines and administrative arrangements to accurately reflect program priorities; and
- 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 review of the FMA Regulations be expedited so that any changes are in place for the commencement of the new program.

1.28 The body of the report gives a more complete description of these program design options. Chapter 2 discusses in detail the fundamentals of the new program, including the role of DITRDLG, possible state based assessment panels, and funding the program. Chapter 3 discusses in detail the application process, from the receipt by the DITRDLG of Expressions of Interest to ministerial decisions, and the subsequent management of funding agreements and assessment of project outcomes.