



**ANAO Submission to the House of Representatives
Standing Committee on Infrastructure, Transport,
Regional Development and Local Government –**

**Inquiry into a New Regional Development Funding
Program**

TOR 1. Provide advice on future funding of regional programs in order to invest in genuine and accountable community infrastructure projects

Program objectives and focus

ANAO's Administration of Grants Better Practice Guide notes the importance of grants programs targeting the areas or projects most in need of funding assistance, consistent with the program objectives. In relation to the Regional Partnerships program, ANAO's audit report noted that the amount of funds approved for projects in the first three years averaged \$183 652 with individual grants ranging in size from \$2 164 to \$10.8 million¹, covering a diverse range of projects largely to benefit Regional Australia including:

- community services, activities and facilities supported by non-profit organisations;
- regional tourism, business and skills planning and development;
- civic and community infrastructure works;
- commercialisation of new and emerging technologies;
- the initiation of new businesses or growth of existing businesses; and
- industry assistance measures.

ANAO's audit of the Regional Partnerships program found that the broad objectives and diverse scope of eligible recipients and projects identified for the program provided significant flexibility in respect to the types of projects that could be considered to support one or more of the objectives and, therefore, be approved for funding.

However, a corollary to the existence of wide parameters in relation to funding decisions was that it proved difficult for the department to assess on a comparable and equitable basis those projects that were appropriate to be funded through the program. In addition, as a result of the wide variety of projects that were able to be approved for funding, it was challenging for program promotion to be targeted at particular areas; for potential applicants to identify the program as an appropriate possible source of Commonwealth funding for their particular project; and for applicants and other stakeholders to distinguish between the reasons that some projects were funded and others were not. The audit concluded that, while ultimately a matter for Government decision, these considerations were indicators that the Regional Partnerships program objectives could have been more focused.

¹ The largest single amount of funding approved in this period was \$12.734 million in Regional Partnerships funds provided to the Department of Agriculture, Fisheries and Forestry to distribute through its Sugar Industry Reform Program.

Appraisal and decision-making processes

A transparent grants appraisal and decision-making process can be expected to result in the selection of those projects that best represent value for money in the context of the objectives of the new program. Experience in respect to grants approved in the first three years of the Regional Partnerships program showed that applications which demonstrably satisfied the published assessment criteria were considerably more likely to have resulted in projects that delivered sustainable outcomes in accordance with the timeline and budget specified in the Funding Agreement and having secured the necessary partnership funding (an issue that we understand will remain relevant in the new Regional Development Funding Program). Focusing funding on these types of projects has also been shown to reduce administrative costs.

Ongoing project monitoring

Various audit reports have observed that integral to the success of the grant funding process is an effective on-going monitoring regime to ensure funding recipients are meeting agreed milestones and other key requirements of their Funding Agreements, combined with the evaluation of individual project outcomes once projects are completed. For the Regional Partnerships program, the audit report stated that there had been significant and widespread shortcomings in the implementation of the documented risk-based monitoring framework which, for the period examined by ANAO, was reflected in:

- a significant number of projects being delayed, often for substantial periods of time. As a result, anticipated project outcomes were not being achieved in a timeframe that was commensurate with that which informed the Ministerial decision that awarding Regional Partnerships funds for the project represented value for money;
- significant increases in the cost of many projects, particularly construction projects. The cost of a project compared to the anticipated benefits was important in terms of overall value for money (as well as impacting on the project viability and partnerships and support assessment criteria); and
- contracted outcomes not being demonstrably achieved for the majority of completed projects in the audit sample.

Projects announced as election commitments

A further important issue in delivering genuine and accountable community infrastructure projects will be the approach that is taken for projects announced as election commitments. In this respect, the report of the audit of the Regional Partnerships program stated that:

The Parliamentary and statutory framework within which Ministers operate includes a number of checks and balances designed to promote accountability for the expenditure of public money and limit the extent to which the incumbent government is able to take decisions that may bind any incoming government. This includes a combination of the observance of non-binding conventions and the statutory framework governing the expenditure of public money.

It is recognised and accepted practice that during election campaigns Ministers, and other government and non-government candidates, will announce party election policies and commitments. The principles underpinning the use of public money to fulfil political undertakings made in the context of an election campaign were considered in the audit report.

In particular, in the light of Ministers' statutory obligations when approving the expenditure of public money, it is important that, once the returned or incoming Government is formed, departments advise Ministers on any measures considered necessary to manage risks to the Commonwealth achieving value for money when acting on election commitments. In this respect, the audit report noted legal advice that announcement of a grant as an election commitment does not obviate the requirement under the *Financial Management and Accountability Regulations 1997* that an approver be satisfied that the commitment represents efficient and effective use of public money before giving approval to fund the commitment. The report further noted that:

An important role for the department in putting election commitment projects forward for funding approval following an election is to ensure Ministers are appropriately informed as to the nature of the project and whether it is likely to make efficient and effective use of the public money. This assists Ministers in carrying out their statutory obligations in respect to approving the expenditure of public money.

The audit of the Regional Partnerships program found that project delays, cost increases and reduced outcomes were particularly evident with respect to election commitment projects that had been funded. This circumstance was a consequence of the department not having procedures in place to obtain documentation from the funding recipient to substantiate important aspects of the project such as:

- the proposed project cost, scope and timeframe; or
- the nature and sustainability of the outcomes expected to be achieved and the quantum of funding being provided by the Commonwealth compared to other relevant stakeholders.

TOR 2. Examine ways to minimize administrative costs and duplication for taxpayers

The Regional Partnerships program was, by virtue of its design, challenging to administer. In these circumstances, it was particularly important that the department's administrative procedures were documented and that any departures from those procedures were well informed and appropriately authorised. In these respects, the audit found that the administration of the program would have benefited from stronger governance arrangements that provided assurance to the department's Chief Executive and Ministers that key departmental procedures were being applied, and that any conditions on the approval of funding by Ministers were adhered to. The audit concluded that the revised internal procedures released in July 2007, as part of the department's re-engineering of its administration of the program, were consistent with these principles.

The financial framework governing commitments to spend public money reflects sound principles that have evolved over time (including in response to shortcomings identified in previous grants programs). Specifically, Part 4 of the Financial Management and Accountability Regulations, *Commitments to spend public money*, sets out a hierarchy of requirements that must each be satisfied, in the appropriate sequence, in order for a commitment to spend public money to be lawfully entered into. Accordingly, a key factor to be considered in designing any program that involves the payment of public money is the requirements of the Commonwealth's financial management framework.

The key factors to be considered include who will act as the approver of grants for the purposes of the FMA Regulations and of the implications that arise from that for the manner in which the approver is able to consider the approval of particular grants. For example, consideration may be given by Ministers to the delegation of that authority to a departmental official, who will be subject to the obligations arising under the FMA Regulations in exercising that authority. Alternatively, Ministers may choose to retain the role of approver, in which case the attendant obligations under the FMA Regulations will apply to the Minister in considering the outcome of individual grant applications.

Early consideration of this framework allows Ministers to be informed of their statutory responsibilities and provides opportunities for the department to design efficient and effective grants application, appraisal and decision-making processes.

Within the boundaries of the financial framework, design of a discretionary grants program, including the parties eligible to apply for funding and the types of projects that will be funded, has a significant impact on program efficiency and the costs of administration. Specifically, the audit of the Regional Partnerships program highlighted that:

- a diverse range of skills and experience is needed in order to appropriately identify risks in relation to applications that range from large projects submitted by commercial applicants (who may also be engaged in raising capital for the project through equity and/or debt) to small community-based projects submitted by non-profit organisations whose viability may be heavily dependent on grants and fund-raising activities;
- programs that operate with a high degree of flexibility in the application assessment and Ministerial approval processes create challenges in ensuring transparent, accountable and cost-effective administration, and in demonstrating the equitable treatment of applicants. In this respect, where eligible recipients apply for funding for an eligible project, the project should be assessed against stated criteria before decisions are taken to approve or not approve funding. There are risks to the achievement of program outcomes, and efficient and cost-effective administration, in circumstances where it is decided to fund all or no applications from particular types of applicants without individual projects being assessed against the published criteria;
- due to documented assessment procedures not being applied, or being applied in a manner that was insufficiently rigorous and consistent, projects that did not demonstrably satisfy the published criteria were nevertheless assessed by

the department as meeting the criteria and recommended for funding approval. This contributed to increased risks to the Commonwealth and presented substantial administrative challenges for the department in administering grants to projects that subsequently experienced difficulties in relation to issues such as establishing and completing a viable project or securing necessary co-funding; and

- training of staff in key aspects such as risk assessment, the scrutiny of application budgets, the process of negotiating and executing a Funding Agreement and analysing progress reports and grant acquittals needs to occur at an early stage of program design and implementation.

During the course of the audit of the Regional Partnerships program, ANAO observed that a measure that could be of considerable benefit in the administration of the program was the re-consideration of the use of structured and competitive funding rounds, as opposed to the existing approach of continuous, non-competitive application and assessment processes. The audit report noted that, while a matter for consideration and decision by government, the introduction of competitive rounds (as exist for many funding programs) would provide benefits including:

- allowing for a stronger and more consistent comparison of the relative merits of proposed projects;
- in the interests of equity of access, assisting to ensure that the communication of opportunities to access funding through the program was more evenly publicised; and
- avoiding some of the perceptions that projects may be approved for funding for party political purposes, including through the 'fast-tracking' of assessment and approval processes, particularly in the context of a pre-election period.

The report also observed that a further opportunity to improve the cost-effectiveness of program administration related to the arrangements applying to low value grants. In particular, in addition to adopting a streamlined application process for applications seeking smaller amounts of funding, there may also be merit in the department providing advice to Ministers on options for applying a different administrative approach for grants of low value under which community organisations could apply for funding for particular purposes. We noted that, while such grants would necessarily still be subject to certain obligations on the part of the funding recipient, there may be options for reviewing both the manner in which the grants are administered and the reporting and other obligations imposed on funding recipients.

The lessons for grants administration from the audit of the Regional Partnerships program, and other recent audits of grants programs, will be reflected in an update to the ANAO Administration of Grants Better Practice Guide. The updated Guide will also reflect the outcome of the current review of discretionary grants programs commissioned by the Finance Minister. We expect the updated Guide to be released in the latter part of 2008-09.

TOR 3 and 4 Examine the former government's practices and grants outlined in the ANAO report on Regional Partnerships and after the audit period of 2003-2006, with the aim of providing advice on future funding of regional programs

As is noted in the Inquiry's Terms of Reference, ANAO's performance audit of the Regional Partnerships program examined the operation of the program over its first three years, including examination of departmental records relating to all Ministerial funding decisions made between 1 July 2003 and 30 June 2006.

Between April 2006 and September 2007, 21 audit Issues Papers were provided to the (then) Department of Transport and Regional Services highlighting various issues that had been identified in relation to the administration of the program. This included a number of case studies which were illustrative of the types of issues being identified in respect to the application development, assessment approval and/or contract management processes undertaken in respect to many of the projects examined by ANAO. The case studies covered grant applications for a variety of project and applicant types across the first three years of the program in a range of project localities.

In this respect, the audit report noted that, by late 2006, the department had become aware of the nature and extent of the administrative problems it needed to address and had commenced a program of significant administrative re-engineering, including of the assessment of applications, management of Funding Agreements and the monitoring and reporting of project and program outcomes. As a result, a number of significant changes to the administration of the program were introduced or proposed during the course of the audit. These changes encompassed both the operations of the Ministerial Committee in taking decisions on Regional Partnerships applications and the department's processes for assessing applications and administering projects approved for funding. Table 1 sets out a range of significant improvement initiatives undertaken in the course of the audit in response to audit findings.

Table 1
Significant improvement initiatives undertaken in the course of the audit

Date of implementation	Nature of change
August 2006	Improvements to the recording of the reasons for funding decisions taken by the Ministerial Committee in the context of formal meetings.
November 2006 and June to October 2007	Extensive staff training undertaken including on risk assessment and negotiating and executing Funding Agreements. Further training, including in the scrutiny of application budgets, scheduled for late October 2007.
May 2007	Department obtained a delegation from the Ministerial Committee for officials to approve minor project variations, providing that total funding does not exceed the amount approved by Ministers, all conditions agreed by Ministers are implemented and the total level of partner contributions remains at or above the percentages specified in the Guidelines.
May to July 2007	Introduction of a revised Internal Procedures Manual to provide all officials involved in Program administration with clear advice on what is expected at each stage of the process.
July 2007	Ministerial Committee agreed to revised briefing material that highlights the requirements relating to the expenditure of public money that arise under the financial framework legislation when Ministers are considering whether to approve funding for individual projects.
	An authorisation sought from the Finance Minister for the Ministers responsible for regional development to consider approving spending proposals in relation to the Regional Partnerships program in circumstances where the project involved expenditure beyond available appropriations. The authorisation, provided in August 2007, was subject to no monetary limit which addressed, for the first time, the unique design and circumstances faced by the Regional Partnerships program.
August 2007	Release of a revised Long Form Standardised Funding Agreement, with effect from August 2007. Revisions were made to the provisions relating to partnership funding, definition of the project activity and project reporting requirements, as well as more clearly defining project conditions including any Ministerial conditions on the approval of funding.
September 2007	Release of a revised online application form and new Regional eGrant IT system, for use by applicants and ACCs, so as to obtain better information from applicants in a number of areas thereby enabling more rigorous project assessments and improved advice to Ministers. This system was to be progressively expanded resulting in a greater reporting capability.
	Announcement that all applications from private businesses would be streamlined into two funding rounds per year in order to enable closer scrutiny of such applications.
	Enhanced procedures approved by the Ministerial Committee to manage potential conflicts of interest in respect to projects located in the electorate of a member of the Committee.

Source: ANAO Audit Report No. 14 2007-08, *Performance Audit of the Regional Partnerships Program: Volume 1 – Summary and Recommendations*, Canberra, 16 November 2007, p. 15.

As indicated in Table 1, a number of these improvement initiatives were introduced in second half of 2007. Consequently, many had yet to be fully implemented by the time the audit report was tabled in November 2007. For example, the implementation of a revised Internal Procedures Manual and Standardised Funding Agreement, and the training of departmental and ACC staff in the application of the improved documentation and procedures, was still in train when the proposed audit report was completed and issued for comment in October 2007. Accordingly, ANAO was not unable to examine the extent to which program administration ‘on the ground’ had improved as result of these initiatives.

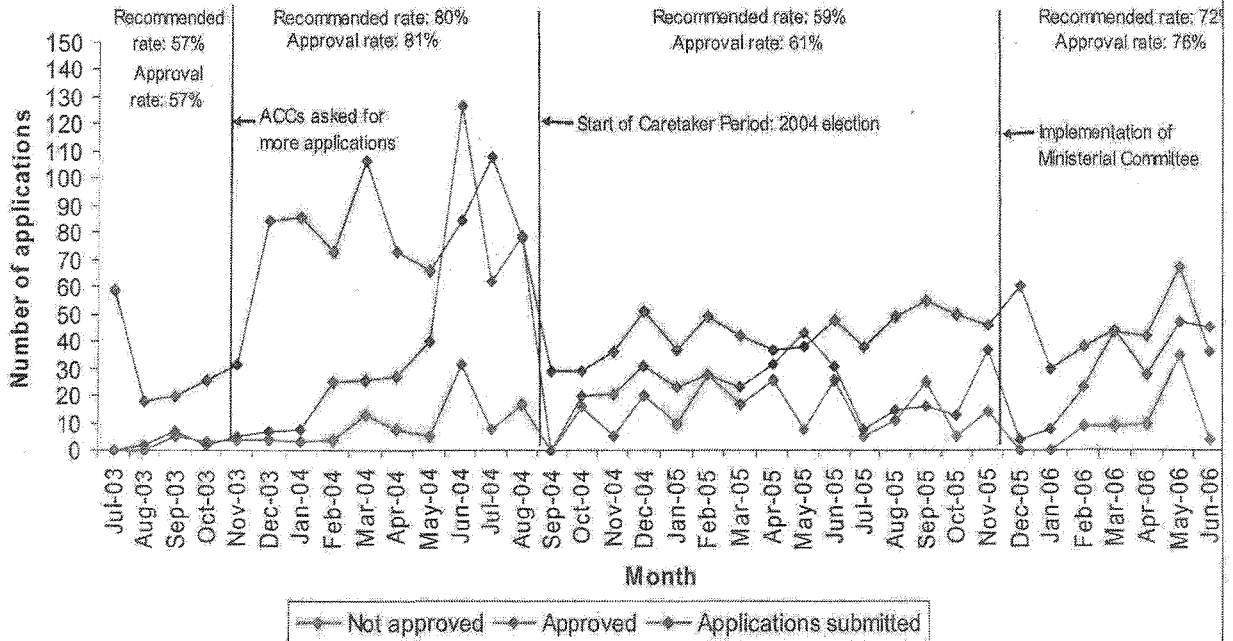
Similarly, changes agreed by the Ministerial Committee in the course of the audit in relation to matters such as the recording of reasons for decisions taken in Committee meetings and the management of potential conflicts of interest offered the potential to enhance the transparency and accountability of Ministerial decision-making, but related to decisions taken after completion of the period examined by ANAO.

Having regard to the focus of the TOR on practices after the audit period of 2003-06, we understand that an issue of particular focus for the Committee relates to practices in the assessment and approval of grants in the period leading up to the calling of the 2007 Federal election. In this respect, ANAO's report noted:

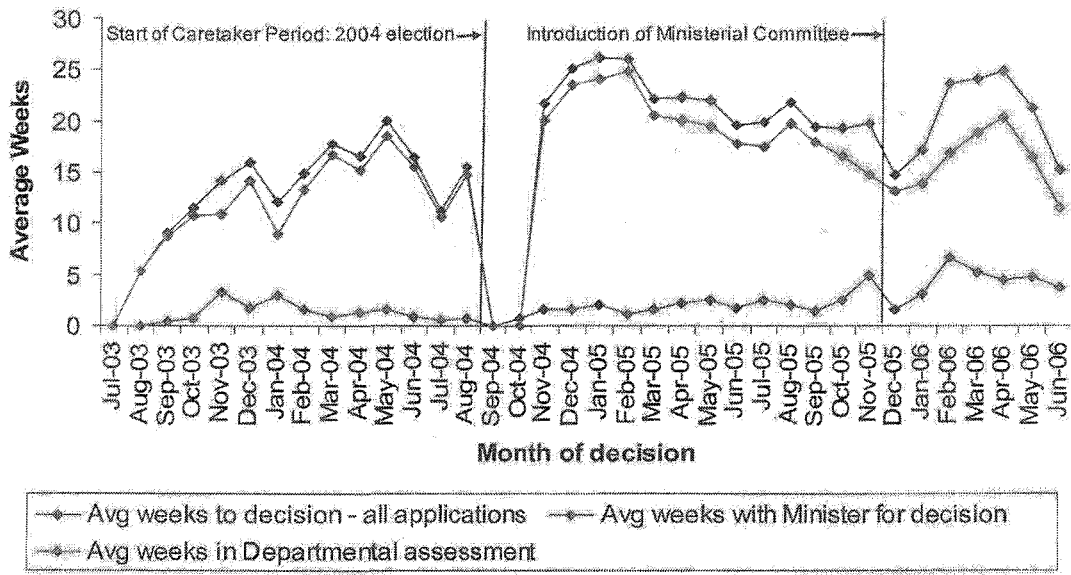
- the significantly higher tempo of funding applications, project approvals and announcements that occurred in the eight months leading up to the calling of the 2004 Federal election, compared to the remainder of the three years examined by ANAO;
- reduced departmental scrutiny of projects during that period which was not balanced by the department drawing the decision-maker's attention to the often limited extent of due diligence that had been undertaken by the department (average assessment times reduced dramatically during this period). Instead, the proportion of projects that were recommended for funding actually increased; and
- a surge in grant approvals and announcements during this period notwithstanding that many of the projects recommended and approved for funding were under-developed such that they did not demonstrably satisfy the program assessment criteria.

These circumstances are illustrated by Figures 2:3.1, 2:3.2 and 2:3.4 in Volume 2 of the audit report (reproduced at Attachment A).

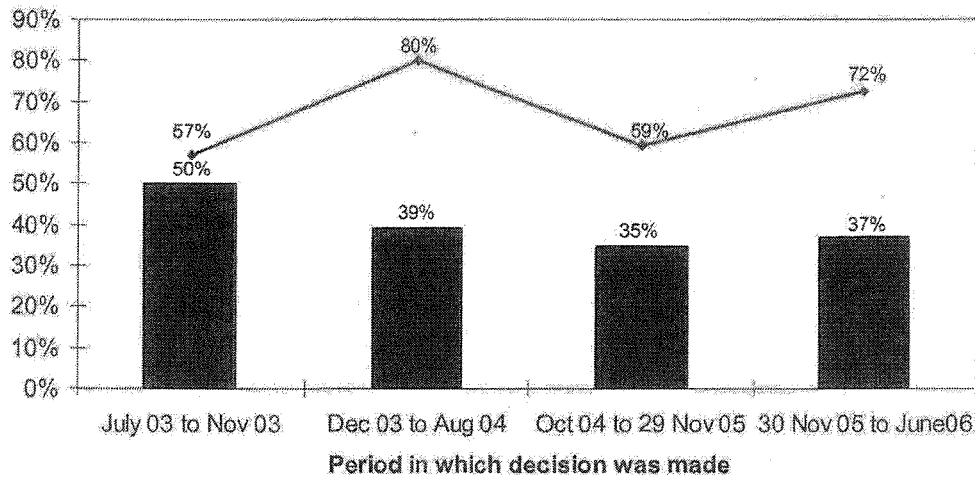
2:3.1
Vol 2
p. 98



2:3.2
Vol 2
p. 104



2:3.4
Vol 2
p. 111



RECEIVED
17 JUL 2008
HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON
INFRASTRUCTURE, TRANSPORT
REGIONAL DEVELOPMENT
AND LOCAL GOVERNMENT