

The Auditor-General
Audit Report No.3 2012–13
Performance Audit

The Design and Conduct of the First Application Round for the Regional Development Australia Fund

Department of Regional Australia, Local Government, Arts and Sport

Australian National Audit Office

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Canberra ACT
19 September 2012

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Regional Australia, Local Government, Arts and Sport with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *The Design and Conduct of the First Application Round for the Regional Development Australia Fund*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations

AEC	Australian Electoral Commission
ANAO	Australian National Audit Office
CGGs	<i>Commonwealth Grant Guidelines—Policies and Principles for Grants Administration</i> , Financial Management Guidance No. 23, issued by the Minister for Finance and Deregulation in July 2009 under FMA Regulation 7A.
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
RDAF	Regional Development Australia Fund
Regional Australia	Department of Regional Australia, Local Government, Arts and Sport

Glossary

Approver (or decision-maker)	The Minister or, where relevant, official with authority to determine whether an application or grant proposal will be funded under a grant program. The FMA Regulations and the Commonwealth Grant Guidelines (CGGs), which have been issued by the Finance Minister, set down a number of requirements that are to be followed by an approver in determining whether a grant should be approved. The CGGs also set down reporting obligations where Ministers approve grants that the relevant agency recommended be rejected, and where Ministers who are Members of the House of Representatives approve grants in their own electorate.
Funding agreement	A legally enforceable agreement setting out the funding terms and conditions under which a grant is provided.
Key principles for grants administration	<p>The CGGs sets out the seven key principles of grants administration established by the Australian Government, as follows:</p> <ol style="list-style-type: none">1. Robust planning and design2. An outcomes orientation3. Proportionality4. Collaboration and partnership5. Governance and accountability6. Probity and transparency7. Achieving value with public money.

RDA
committees

Regional Development Australia (RDA) is a network of 55 RDA committees across Australia that provides a strategic framework for economic development in each region. The RDA committees are made up of local leaders who work with all levels of government, business and community groups. It is an Australian Government initiative administered by the Department of Regional Australia, Local Government, Arts and Sport.

RDA regional
plans

Among other things, RDA committees develop regional plans that describe the region, its attributes, industry and employment base and key advantages. The plans set out the economic, environmental and social vision for the region, articulate the drivers of change, identify strengths, weaknesses and opportunities, and list priorities for action.

Selection
criteria

Selection criteria fall into two main groups, as follows:

- threshold criteria are the criteria that an application must satisfy in order to be considered for funding. These are also variously expressed as 'eligibility criteria', 'mandatory criteria', 'compliance criteria' or 'gateway criteria'; and
- assessment criteria are the criteria against which all eligible, compliant applications will be assessed in order to determine their merits against the program objectives and, for competitive programs, other competing applications.

Summary and Recommendations

Summary

Introduction

1. The Regional Development Australia Fund (RDAF) was established in early 2011 as a nationally competitive, merit-based grants program with discrete funding rounds. A total of some \$1 billion¹ is expected to be available under the RDAF over six years. The RDAF was one of the initiatives established to deliver on the Government's 7 September 2010 agreement with the Independent Members for Lyne and New England.

2. At the time it was established, the program objective was to fund projects that support the infrastructure needs and economic and community growth of Australia's regions. This objective was revised in November 2011 for the second funding round, and is now 'to support the economic, environmental and community needs of Australia's regions by providing funding for projects that meet the identified priorities of regional communities, as articulated in RDA regional plans'.

3. To date, two application rounds have been conducted, with nearly \$350 million in program funding awarded to 81 projects. Three more funding rounds are proposed. The focus of this audit report is the first funding round, completed in September 2011, through which 35 projects were awarded funding of \$149.65 million.

Administration and implementation of the first RDAF funding round

4. The RDAF is administered by the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia). The Minister for Regional Australia announced a public call for applications to the first \$100 million funding round on 11 March 2011, with applications closing during May 2011. Subsequently, the Government decided to increase the funding available in this round to \$150 million.

¹ The 2012–13 Budget Papers disclosed administered expenses for RDAF of \$974 million between 2011–12 and 2016–17 (source: Regional Australia, Regional Development, Local Government, Arts and Sports portfolio, Portfolio Budget Statements 2012–13, Budget Related Paper 1.16, p. 35).

5. Local government bodies and incorporated not-for-profit organisations were eligible to apply for funding under the first round. Applicants could request between \$500 000 and \$25 million from the RDAF towards projects that were predominately capital in nature. Applications were expected to include written endorsement from the relevant Regional Development Australia (RDA) committee confirming that the project aligned to the relevant regional plan.

6. Regional Australia received 553 applications, seeking total funding of over \$2 billion. The applications covered a range of projects, diverse in both size and nature. The total estimated cost of the projects ranged from \$502 385 to \$400 million, at an average total estimated cost of \$10.2 million. Projects were most commonly categorised as providing social and cultural infrastructure (39 per cent) followed by recreation facilities (22 per cent).

7. Regional Australia was responsible for checking each application for compliance with the mandatory requirements for funding. It assessed that 348 applications (63 per cent) received were ineligible. An independent advisory panel, appointed by the Minister for Regional Australia, was then responsible for assessing the relative merits of the eligible applications and for providing funding recommendations to the Minister.

8. Consistent with the program guidelines, the advisory panel categorised the 204 eligible applications² as either 'Recommended for Funding', 'Suitable for Funding'³ (which it divided into two priority groups) or 'Not Recommended for Funding'. The panel recommended that the 25 eligible applications in the Recommended for Funding category be approved for funding at a cost of up to \$134.98 million.

² There were 205 applications assessed as eligible and, as one of these was subsequently withdrawn by the applicant, 204 were provided to the panel for consideration.

³ The program guidelines for the first round of the RDAF outlined that any projects categorised as 'Suitable for Funding' would not be recommended for approval by the panel, but could be re-submitted for consideration at subsequent meetings of the panel. Accordingly, and consistent with the panel's decision to only recommend for funding approval those 25 projects included in the Recommended for Funding category, Regional Australia's briefing to its Minister had outlined that any projects in the Suitable for Funding category that were approved for funding would need to be reported to the Finance Minister (the Commonwealth Grant Guidelines require that an annual report be provided to the Finance Minister identifying all decisions to approve a particular grant which the agency has recommended be rejected).

9. On 5 September 2011, the Minister awarded a total of \$149.65 million in RDAF funding to 35 applications, which included 21 of those recommended by the panel (see Table S1). Regional Australia negotiated funding agreements with the successful applicants and provided feedback to the unsuccessful applicants.

Table S1

Advisory panel categorisation and ranking of applications, and related Ministerial funding decisions

Category assigned by advisory panel	Applications in category	Applications approved for funding
Recommended for Funding	25 applications individually ranked seeking \$134.98 million.	21 applications approved for \$99.15 million.
Suitable for Funding—Priority One	39 applications individually ranked seeking \$135.45 million.	13 applications approved for \$40.5 million.
Suitable for Funding—Priority Two:		
Ranking of 1	3 applications equally ranked seeking \$30.44 million.	No applications approved.
Ranking of 2	34 applications equally ranked seeking \$111.83 million.	No applications approved.
Ranking of 3	41 applications equally ranked seeking \$149.28 million.	One application approved for \$10 million.
Not Recommended for Funding	62 applications unranked seeking \$256.49 million.	No applications approved.
Total	204 eligible applications seeking \$828.46 million	35 applications approved for \$149.65 million

Source: ANAO analysis of Regional Australia data.

Audit objectives, criteria and scope

10. The objective of the audit was to assess the effectiveness of Regional Australia's management of the design and implementation of the first application round of the RDAF program. The audit examined:

- whether the design of the program reflected lessons learned from audits of previous grant programs⁴ and the requirements of the grants administration framework that was progressively implemented between December 2007 and July 2009;
- whether the business practices of Regional Australia met policy and legislative requirements as well as accountability responsibilities, including those set out in the *Financial Management and Accountability Regulations 1997* and Commonwealth Grant Guidelines (CGGs);
- whether the assessment of possible projects was undertaken in accordance with the published program guidelines;
- the process by which projects were ranked and subsequently approved for funding; and
- the process by which funding agreements were developed and executed with successful applicants, and feedback was provided to unsuccessful applicants.

Overall conclusion

11. The establishment of a new infrastructure program to fund projects identified by Regional Development Australia committees in regional areas was one of the initiatives established to deliver on the Government's September 2010 agreement with the Independent Members for Lyne and New England. The program was to fund projects that support the infrastructure needs and economic and community growth of Australia's regions.

12. Through the first Regional Development Australia Fund (RDAF) funding round, nearly \$150 million was awarded to 35 projects predominantly located in regional Australia. Funding agreements have been signed in respect to each approved project, with these agreements specifying partner contributions to the projects totalling some \$248 million (or \$1.66 in contributions from other sources for each \$1 of RDAF funding). Each funding

⁴ In particular, the Strategic Projects Component of the Regional and Local Community Infrastructure Program. See further in ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010 and Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11*, Canberra, July 2011.

agreement included a contracted project completion date, the last of which is June 2016.

13. Overall, in assisting the Government to deliver on its commitment to establish a new regional grants program, Regional Australia's management of the design and implementation of the first RDAF funding round was effective. This included improvements in the approach taken to briefing the Minister to inform his funding decisions, particularly by identifying to the Minister those applications the RDAF advisory panel had recommended be approved. That said, the department's advice to the Minister suggested that the Minister could consider approving more projects than those recommended by the panel, but without outlining to the Minister a structured process for this to occur in a way that was consistent with the published program guidelines.

14. Regional Australia has invested resources into analysing the recommendations of previous Parliamentary Committee and ANAO reports to improve the program design and delivery arrangements. Of note, particularly in the context of shortcomings observed in audits of predecessor programs and the requirements of the grants administration framework, was that eligibility and assessment criteria were developed, published and applied to inform the decision about which applications should be awarded funding. In addition, the department provided all unsuccessful applicants with feedback on their applications, and took steps to identify and implement improvements to the application processes for the second funding round.

15. Improvements in the quality of Regional Australia's assessment work were also evident, although there remains scope to improve the assessment of whether eligible applications represent value for money. There would also be benefits from a more robust rating system being adopted to record the assessment of each eligible application's performance against the published merit assessment criteria, providing a stronger link between the detailed assessment of each application and the final order of merit.

16. As was intended by the design of the program, the advisory panel injected external expertise into the merit assessment process. All applications assessed by Regional Australia as eligible were examined by the panel. Consistent with the program guidelines, the panel categorised each eligible application as either Recommended for Funding, Suitable for Funding or Not Recommended for Funding. Through this process, the panel also developed an order of merit and provided the Minister with a clear funding recommendation for those 25 projects that it considered should be approved

for total RDAF funding of up to \$135 million. The Minister approved 21 of those applications, and recorded his reasons for not approving the other four recommended projects. The recorded reasons related to the regional distribution of funding across the program and the regional benefits associated with urban projects.

17. The Minister also approved 14 projects from the Suitable for Funding category—the panel had not recommended that funding be awarded to any projects in that category. Regional Australia had suggested to the Minister that funding could be awarded to projects in addition to those categorised by the panel as Recommended for Funding. However, the department did not advise the Minister of the importance of his decisions having regard to the published assessment criteria—including the expectation that the recorded reasons for approving such applications address any limitations identified with these applications in terms of the criteria and in comparison to more highly ranked applications that are not approved for funding.

18. Regional Australia did advise the Minister that he would need to record his reasons for approving any projects that the panel had not included in the list of 25 recommended projects, and report such instances to the Finance Minister.⁵ The Minister provided his reasons for approving a project he selected from the Suitable for Funding—Priority Two category. The Minister then worked through the panel's Suitable for Funding—Priority One order of merit list. He approved 13 of these projects, and recorded his reasons for not approving nine of the projects⁶, until the available \$150 million in funding was exhausted. However, reflecting the shortcomings in the departmental advice referred to in paragraph 17, the various reasons recorded by the Minister focused on the Minister being satisfied with the regional distribution of funding across the program and with the regional benefits associated with urban projects but did not directly relate to the published program criteria.

⁵ Since January 2009, Ministers have been required to provide an annual report to the Finance Minister outlining all decisions to approve a particular grant which the agency has recommended be rejected. This report is to be provided by 31 March each year for the preceding calendar year and is to include a brief statement of the basis of the approval for each grant.

⁶ The documented reasons related to the Minister's concerns about not funding too many projects in one geographical area (referred to by the Minister as 'distributional impact') or insufficient 'broader regional impact' for various projects that were in an urban, inner urban or peri urban location.

19. This latest audit of a regional grant funding program indicates that the grants administration framework now in place is soundly structured to achieve outcomes consistent with program objectives, as well as promote decision-making processes that satisfy the requirements of the financial management legislation. Given their particular experiences and areas of expertise, the framework recognises that departments, advisory panels (where they are in place) and Ministers will at times have different perspectives on the relative merits of candidates for grant funding. In such circumstances, there is an important role for departments to advise Ministers on the steps to be followed where the Minister reaches a different conclusion about the relative merits of grant proposals (in terms of the published assessment criteria⁷) from that recommended to them.

20. Recognising that further RDAF funding rounds are proposed, the ANAO has made three recommendations. These recommendations are focused on further improving key elements of Regional Australia's application assessment and approval processes.

Key findings by chapter

Access to the program (Chapter 2)

21. Regional Australia had estimated it would receive between 500 and 700 applications for RDAF funding under the first round. In total, 553 applications were received, at the lower end of the expected range.

22. Applications were to be lodged online via Regional Australia's grant management system portal. However, significant issues arose with the use of this portal, making it difficult for applicants to lodge their applications. In this

⁷ In an audit of a predecessor regional grant funding program, the ANAO concluded that potential applicants and other stakeholders may reasonably expect that grant program funding decisions will be made in a manner, and on a basis, that is consistent with the published guidelines. Subsequently, the Government commissioned a strategic review of grants administration. The report of that review similarly concluded that 'potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines and selection documentation' and that, in situations where the Ministerial decision differs from that recommended, 'special care will be needed in order to demonstrate that the relevant program guidelines and selection criteria have been observed, that all grant applicants have been treated fairly, and that the requirements of the financial framework have been met'. As a result of the recommendations made by that review, the Commonwealth Grant Guidelines that came into effect on 1 July 2009 outline that the program guidelines for a grant program are a policy of the Commonwealth that must be considered before any funding decision is made under the particular program.

context, following the conclusion of the first application round, the department sought to identify lessons that could be learned from the application lodgment process. In light of stakeholder feedback, changes have been made to the application process for the second RDAF funding round.

23. Eligibility requirements for the first round of RDAF were set out across the program guidelines, a related Frequently Asked Questions (FAQ) document published on Regional Australia's website as well as in the application form.⁸ Regional Australia checked the eligibility of each application received against the eligibility criteria. Only those applications assessed as eligible progressed to the next stage of the assessment process.

24. Of the 553 applications that were recorded as having been received, 348 (63 per cent) were assessed by Regional Australia as ineligible. Compared to other applications-based competitive grant programs (including for community infrastructure) examined by ANAO, this was a high rate of ineligibility. It was also considerably higher than the department had estimated during the program planning phase, which was that around 20 per cent of all RDAF applications would be ineligible.⁹ This situation does not reflect well on the accessibility of the program to applicants.¹⁰

Departmental assessment of eligible applications (Chapter 3)

25. Assessment criteria were developed and published in the program guidelines. Regional Australia assessed eligible applications in terms of:

- risk, including the extent of any risks to the proposed project being delivered and sustained;
- the extent to which the project was aligned with the regional plan for the relevant RDA committee; and

⁸ Some eligibility requirements were amended and/or clarified after the program opened to applications.

⁹ Rather than assessing between 400 and 560 eligible applications as had been anticipated, the panel only had to assess 204 applications.

¹⁰ The factor that made the most significant contribution to the high number of applications that were ineligible was that the program guidelines and related program documentation did not provide sufficiently clear and consistent guidance to applicants on the various threshold requirements that needed to be satisfied in order to be assessed as eligible.

- the extent to which the application met the published merit criteria, to assist the advisory panel (which was responsible for the final merit assessment of each eligible application).

26. Regional Australia undertook the assessment work to assist the advisory panel. There were few instances where the panel records indicated it had a different view as to the extent to which an application met one or more of the assessment criteria. For future funding rounds, the assessment process would be strengthened if:

- the rating scale that is used differentiated more effectively between individual projects and classes of projects so as to enable a clearer link between the final ranking of eligible applications and the underlying assessment of each application in terms of the published merit assessment criteria¹¹; and
- more comprehensive advice was provided to decision-makers on the extent to which eligible applications represent value for money, particularly in circumstances where they are assessed as not meeting one or more of the published assessment criteria.¹²

Advisory panel deliberations (Chapter 4)

27. The role of the advisory panel was to consider the relative merits of projects based on its assessment against the published assessment criteria so as to provide funding recommendations to the Minister.

28. The panel brought external expertise to the assessment process and outcomes, using the initial assessment of the merits of the 204 applications prepared by Regional Australia as a starting point. The panel's assessment proceeded in the following three stages:

¹¹ As outlined in ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, June 2010, pp. 65–66 and p. 75, numerical rating scales have a number of advantages in differentiating effectively between individual projects and classes of projects. Consistent with this, ANAO's recent audits of grants programs across a number of agencies have shown a trend towards greater use of numerical scoring systems.

¹² For the first RDAF funding round, only those applications assessed as ineligible were considered by Regional Australia to not represent value for money. In this respect, Regional Australia advised its Minister that applications the panel was not recommending for funding still represented value for money notwithstanding that a significant number of these had been assessed as Poorly Developed against one or more assessment criteria (and, in some case, with a high level of associated project risk).

- separating the eligible applications into two categories—those that did not merit further consideration (categorised as Not Recommended for Funding (NRF)) and those that were suitable candidates for possible funding (categorised as Suitable for Funding (SFF));
- adopting a scoring approach to identify the most meritorious of the SFF applications for further consideration; and
- ranking the 64 applications that had been allocated the highest scores to produce a preliminary order of merit.

29. The panel categorised 25 applications as Recommended for Funding, 117 applications as Suitable for Funding (divided into two groups called Priority One and Priority Two) and 62 applications as Not Recommended for Funding. The applications categorised as Recommended for Funding and Suitable for Funding—Priority One were individually ranked by the panel in an order of merit. In the absence of additional explanation, it would be expected that there would be a reasonably strong correlation between an application’s position on the final order of merit list and the outcome of the assessment of that application against the published criteria. However, there was not a clear and consistent correlation between an application’s position on the panel’s final order of merit list and the documented assessment of each application against the selection criteria.¹³ Nevertheless, the approach taken enabled the panel to provide a clear funding recommendation to the Minister.

30. Regional Australia assisted the panel by providing a range of documentation and other support so that it could make informed judgments about the competing merits of each eligible application. However, other aspects of the administrative support for the panel could have been improved. In particular, there was an extensive delay in the minutes from the August 2011 advisory panel meetings¹⁴ being finalised and approved by the panel, and the minutes lack sufficient detail to provide evidence of the panel’s

¹³ For example, some applications assessed as meeting to a high standard most or all of the published criteria were categorised and ranked lower than other applications where the documented assessment indicated that they were less meritorious in terms of the published criteria. The reasons for the ranking awarded each application by the advisory panel were not recorded in the meeting minutes.

¹⁴ The panel convened over seven days during August 2011 to assess the eligible applications and determine its recommendations, which were finalised on 1 September 2011. The minutes were not finalised until April 2012.

assessment of each application against the merit criteria and the related categorisation and ranking of competing applications.¹⁵ The department has advised ANAO that the minutes for the second funding round were finalised in a timely manner and that the content of the minutes for forthcoming rounds will reflect ANAO feedback, including recording the reasons for assessment decisions.

Advice to the minister and funding decisions (Chapter 5)

31. The panel provided the Minister for Regional Australia with a clear funding recommendation for his consideration. Specifically, it recommended that the 25 projects in the Recommended for Funding category be approved at a cost of up to \$134.98 million. It further recommended to the Minister that Regional Australia negotiate with three applicants that had sought more than \$10 million to reduce the Australian Government contribution where possible. The panel estimated that this would reduce the funding needed for the recommended 25 projects from \$134.98 million to \$126.18 million. The panel did not propose that any additional projects be funded with the amount remaining from the \$150 million.

32. However, Regional Australia's advice to the Minister differed from that provided by the panel. In particular, the department advised the Minister that the available funding enabled him to accommodate all of the panel's recommendations as well as draw additional projects from the 'Suitable for Funding' list. The department did not advise the Minister of the basis on which it had determined that such a course would be open to the Minister, having regard to the selection process set out in the program guidelines and the conclusion reached by the panel that not all of the available funding for the first round should be awarded. Nor did the department identify the basis on which it was proposing that the Minister should select the additional projects from within the Suitable for Funding category (which comprised two distinct groupings).

¹⁵ For example, the scores developed in the third stage of the assessment process were not recorded in the meeting minutes even though they provided a key input to the panel's final categorisation and ranking of eligible applications. Similarly, adjustments made to the ranking and scoring of applications (some of which were significant) and the related reasons for these adjustments were not recorded in the meeting minutes. The meeting minutes also did not contain the final order of merit list nor explain the process for categorising applications as Suitable for Funding—Priority One and Suitable for Funding—Priority Two.

33. In light of Regional Australia’s advice, 14 of the 35 projects approved by the Minister had been selected from the Suitable for Funding category. Consequently, a feature of the projects approved for funding was that a relatively high proportion (40 per cent) had not been recommended for approval by the panel, and the total amount of RDAF funding approved (\$149.65 million) was 19 per cent higher than the amount the panel had proposed be awarded.

34. Reflecting the different experiences and expertise brought to bear by those responsible for assessing proposed grants and Ministerial decision-makers, the financial framework applying to grants decision-making recognises that different conclusions can legitimately be drawn from any given set of information and evidence, and accordingly it is open to a Minister to reach a decision different from that recommended in an agency’s advice. However, in respect to all grant funding decisions, the financial framework also requires that the basis for the decision be recorded. In this context, where the assessment advice provided to the Minister has identified relative shortcomings against one or more of the published assessment criteria, compliance with the framework necessitates that the recorded basis of the funding decisions outlines how the decision-maker arrived at a different view as to the performance of the relevant application against these criteria (and, in the context of a competitive grant program, how that compares to that of competing applications).¹⁶

35. The Minister approved 21 of the 25 projects recommended for funding and recorded individual reasons for not approving the other four of these recommended projects. The Minister also approved one project from the Suitable for Funding—Priority Two category at this time, and recorded his reason for approving it.¹⁷ However, the recorded reason did not outline how (in terms of the published assessment criteria) it had been identified as more

¹⁶ Alternatively, it might be possible for a decision-maker to waive one or more criteria but the CGGs outline that, in the interests of transparency, accountability and equity, grant guidelines should document the circumstances in which the eligibility and assessment criteria set out in grant guidelines may be waived. The RDAF program guidelines did not permit any of the assessment criteria to be waived.

¹⁷ The Minister recorded that his decision to approve funding for both the new Geelong Library and Heritage Centre (the highest ranked project located in the Geelong region, which the panel had recommended for approval) and stage 3 of the Geelong Football Club’s Skilled Stadium redevelopment was ‘based on my knowledge and advice as well as its strong business case and the leveraged funds for both the library and football proposals and further given the distributional impact of both projects’.

meritorious than the other 40 projects that were ranked equally, or the 76 projects that were ranked more highly, by the panel in the Suitable for Funding categories.

36. The Minister then considered the 39 projects in the Suitable for Funding—Priority One category by working through them in order of merit. The Minister approved 13 projects, recorded individual reasons for not approving nine projects¹⁸, and recorded the reason ‘funds exhausted’ in reference to the remaining 17 projects. Reflecting that Regional Australia had not advised the Minister on how such selections should be made, including clearly relating any such decisions to the comparative merits of competing applications in terms of the published assessment criteria, the recorded reasons did not directly relate to the published program criteria. Rather, they focused on the Minister being satisfied with the regional distribution of funding across the program and with the regional benefits associated with urban projects.

37. In addition to recording the basis for grant approval decisions, the CCGs require that Ministers provide an annual report to the Finance Minister by 31 March of each year outlining all instances for the preceding calendar year where they had awarded a grant that the agency had recommended be rejected. Regional Australia’s advice had outlined that the approval of any projects other than the 25 projects that had been included by the panel in the Recommended for Funding category would require reporting to the Finance Minister. However, the report for the 2011 calendar year prepared by Regional Australia and sent by the Minister to the Finance Minister in February 2012 in relation to the approval of grants that the agency advice had recommended be rejected did not identify the 14 decisions taken in relation to the first round of the RDAF. In July 2012, Regional Australia advised ANAO that it has prepared a brief to the Minister, and draft correspondence from the Minister to the Finance Minister, so as to report these 14 decisions to the Finance Minister.

Funding distribution, feedback to applicants and signing of funding agreements (Chapter 6)

38. Most of the funding awarded under the first round of RDAF was for projects located in regional Australia. However, projects located in major cities

¹⁸ See footnote 6.

were eligible to apply for funding and, accordingly, eight of the projects approved were located in major cities.¹⁹ The proportion of projects located in regional Australia that were approved for funding was consistent (both in terms of the number of applications and the quantum of funding) with the proportion of applications received.

39. In terms of electoral distribution, applications for projects located in an electorate held by the ALP were more successful. That is, projects located in ALP-held electorates had an approval rate of 22 per cent, compared with the approval rate of 14 per cent for projects located in an electorate held by the Coalition parties or Independent Members. In large part, this outcome was because projects located in ALP-held electorates were more highly represented in the panel's funding recommendations to the Minister.²⁰

40. The details of all 35 projects funded under the first round were published within a single media release on 7 September 2011, which was two days after the grants were approved. This approach avoided any perception that the timing of announcements was being used for party-political purposes. It also allowed applicants to seek alternative funding sources as soon as possible where their application was unsuccessful, or to proceed toward project implementation where they were successful. However, there were subsequent delays with project implementation because of delays with the finalisation of funding agreements with a significant number of the successful applicants. The funding agreements were signed over the period 13 December 2011 to 23 May 2012.

41. During the funding agreement negotiations, the partnership contributions were reviewed. The result was that the value of the partnership contributions differed from that specified in the application, and in subsequent advice to the advisory panel and the Minister, for 18 of the projects. Based on the signed funding agreements, RDAF funding totalled \$149.2 million and the

¹⁹ In accordance with the government's spatial reporting framework, regional Australia is defined as being all of Australia except for areas classified as Major Cities under the Australian Bureau of Statistics Australian Standard Geographic Classification Remoteness Structure.

²⁰ Applicants were required to specify the electorate in which the project was located. However, while the information provided to the panel and the Minister identified the location of each project as well as the relevant RDA committee, it did not specify the Federal electorate. Regional Australia has advised ANAO that at no time during the assessment process, panel discussions or in advice to the Minister was any analysis or discussion about electorates undertaken.

partner contributions totalled \$247.8 million. Therefore, for every \$1 of RDAF funding there was \$1.66 contributed by other sources.

42. All unsuccessful applicants were given written feedback on their application and offered the opportunity to obtain more detailed verbal feedback. There was also an opportunity for stakeholders to provide both verbal and written feedback to Regional Australia and the panel on their experiences with round one. The feedback received was used to inform the design of the second round.

Summary of agency response to the proposed audit report

43. The proposed audit report was provided to Regional Australia, the Minister for Regional Australia and the chair of the RDAF advisory panel for comment. Regional Australia provided the following summary response with the full response included at Appendix 1:

The Department of Regional Australia, Local Government, Arts and Sport has adopted a continuous improvement approach to the management of its grants programs. As such, I appreciate the ANAO's acknowledgement that the Department has effectively managed the design and implementation of the first round of RDAF, and that the Department has invested resources into analysing previous ANAO reports to improve the design and delivery of the program. I also appreciate the ANAO's confirmation that a sound grants administration framework is in place, which supports both the achievement of program outcomes and decision-making processes that satisfy the requirements of grants management legislation.

The Department notes that it conducts its own review of programs at the conclusion of each round, and has incorporated the findings of those reviews in the design and delivery of RDAF. In addition, the Department has sought to implement the recommendations from previous ANAO reports in the establishment and delivery of Round One of RDAF. The Department has used early advice from the ANAO on Round One to improve and refine the delivery of Round Two. Recommendations in this Audit Report will be adopted in Round Three and subsequent rounds.

Recommendations

Set out below are ANAO's recommendations and Regional Australia's abbreviated responses. More detailed responses are shown in the body of the report immediately after each recommendation.

Recommendation No. 1

Paragraph 3.40

To provide a more efficient and effective means of differentiating between eligible applications in terms of their overall claims against the published assessment criteria, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport, in consultation with the Regional Development Australia Fund advisory panel, adopt a numerical rating scale for the merit assessment stage of future funding rounds.

Regional Australia response: *Agreed.*

Recommendation No. 2

Paragraph 3.44

In designing and administering grant programs, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport clearly outline to decision-makers the basis on which it has been assessed whether each application represents value for money in the context of the published program guidelines and program objectives.

Regional Australia response: *Agreed.*

**Recommendation
No. 3****Paragraph 4.61**

ANAO recommends that, consistent with the key principles for grants administration outlined in the Commonwealth Grant Guidelines, the Department of Regional Australia, Local Government, Arts and Sport improve the documentation provided to the Minister in respect to the assessment of individual eligible applications against the published criteria to promote a clear alignment between these assessments and the order of merit for funding recommendations.

Regional Australia response: *Agreed.*

Audit Findings

1. Introduction

This chapter provides an overview of the Regional Development Australia Fund (RDAF) as a nationally competitive grants program. It also outlines the audit objective, scope and criteria.

Background

1.1 As part of the negotiations to form government following the 2010 general election, on 7 September 2010 the Leader and Deputy Leader of the Australian Labor Party (ALP) signed an agreement with the Independent Members for Lyne (Rob Oakeshott MP) and New England (Tony Windsor MP). This agreement included:

- a commitment to a new Cabinet-level Minister for Regional Australia and a new dedicated Department of Regional Australia²¹; and
- various new regional commitments in respect to the National Broadband Network, health, education, and a new infrastructure program to fund projects identified by Regional Development Australia (RDA) committees in regional areas.

1.2 At the time the Regional Development Australia Fund (RDAF) was established, the program objective was to fund projects that support the infrastructure needs and economic and community growth of Australia's regions. This objective was revised in November 2011 for the second funding round, and is now 'to support the economic, environmental and community needs of Australia's regions by providing funding for projects that meet the identified priorities of regional communities, as articulated in RDA regional plans'. The RDAF program is administered by the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia).

1.3 A total of some \$1 billion is expected to be available under the RDAF over six years, commencing in 2011–12. ²² For the first funding round, examined in this audit, Regional Australia was responsible for:

²¹ The Administrative Arrangements Order of 14 September 2010 created the Department of Regional Australia, Regional Development and Local Government. The most recent December 2011 machinery of government changes saw this department become the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia).

- advising the Government on the design of the program, including taking into account lessons from earlier ANAO performance audits of earlier regional funding programs and related Parliamentary Committee scrutiny;
- developing the program guidelines and other published program documentation as well as internal governance arrangements;
- checking the eligibility of applications and degree of alignment with RDA regional plans, and then arranging for the conduct of risk assessments for eligible applications;
- undertaking an initial merit assessment of each eligible application against the published program assessment criteria;
- providing the results of its assessment work to the RDAF advisory panel (which was responsible for making funding recommendations to the Minister) and providing secretariat services to the panel;
- developing, signing and administering funding agreements with the proponents of the successful applications; and
- conducting a post implementation review to identify and document the successes and failings of the program from a management and outputs perspective, as well as undertaking a lessons learned exercise with program managers and staff.²³

Advisory panel

1.4 In addition to the role played by Regional Australia in the assessment of applications, an expert independent advisory panel was appointed by the Minister for Regional Australia (the Minister) to consider the relative merits of eligible applications based on the information provided by Regional Australia and the published program criteria. The panel ranked the eligible applications and provided advice to the Minister on those applications that should be

²² The 2012–13 Budget Papers disclosed administered expenses for RDAF of \$974 million between 2011–12 and 2016–17. Regional Australia, Local Government, Arts and Sports portfolio, Portfolio Budget Statements 2012–13, Budget Related Paper 1.16, p. 35.

²³ In July 2012, Regional Australia advised the ANAO that it did not conduct a formal post implementation review but that the following review actions had been undertaken: the chair of the RDAF advisory panel had conducted stakeholder sessions, a survey had been undertaken through the departmental website, and a lessons learned exercise was undertaken with assessment centre staff.

approved for funding. In addition, at the conclusion of the first funding round and at the request of the Minister, the chair of the panel met with key stakeholders with an interest in the program to discuss their experiences with the first round and identify improvements that could be made for the second round. A report was provided to the Minister in September 2011.

Minister for Regional Australia

1.5 The Minister for Regional Australia was the decision-maker, or financial approver, for RDAF. Regional Australia was responsible for advising its Minister on the requirements set out in the *Financial Management and Accountability Regulations 1997* (FMA Regulations) and the Commonwealth Grant Guidelines (CGGs), which were issued by the Finance Minister.²⁴ Among other things, the CGGs require that a Minister not make grant funding decisions without having first received agency advice on the merits of awarding a proposed grant. They also establish reporting obligations where Ministers approve grants that the relevant agency recommended be rejected, and where Ministers who are Members of the House of Representatives approve grants in their own electorate.

Funding rounds

1.6 Applications to the first \$100 million funding round were called for in March 2011 and closed in May 2011. Subsequently, the Government decided to increase the funding available to \$150 million. A total of 553 applications, seeking funding of approximately \$2 billion, were received from local government authorities (60 per cent of applications) and incorporated not-for-profit organisations (40 per cent). The applications received were for a diverse range of projects in size and in nature, and sought an average of \$3.7 million in Australian Government funding. The total estimated cost of the individual projects for which funding was sought ranged from \$502 385 to \$400 million, at an average total estimated project cost of \$10.2 million.

1.7 Regional Australia determined that 348 of the applications received were ineligible for funding under the first round. Following the withdrawal of one application, the remaining 204 applications that were deemed eligible were

²⁴ Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, Canberra, July 2009.

assessed by the independent advisory panel. The panel recommended that 25 projects be approved for funding at a cost of up to \$134.98 million. On 5 September 2011, the Minister decided to award a total of \$149.65 million in RDAF funding to 35 applications. Funding agreements had been signed in respect to all approved projects by 23 May 2012.

1.8 When announcing the successful round one projects, the Minister outlined that a review of that round would be undertaken to consider how the program might be strengthened and the application process streamlined.²⁵ As a consequence, the guidelines for the second funding round, released in November 2011, outlined some key changes to the program arrangements. In particular:

- placing a stronger emphasis on broader regional benefits in the selection of successful applications²⁶;
- introducing a two-stage application and assessment process, including a short Expression of Interest (EOI);
- giving a greater role to RDA committees. Under the revised arrangements, each RDA committee would receive and review the EOIs for their region against five published criteria and select the three highest priority projects to submit a full application. RDA committees were also to provide an overview of their regional plans to Regional Australia to inform the assessment of full applications;
- replacing the mandatory requirement for applications to include partnership funding with a stated preference for applications that demonstrate partnership funding on a 1:1 dollar basis for grant requests of \$5 million and less, and on a 1:2 dollar basis for grant requests of more than \$5 million, plus a new mandatory requirement that at least 50 per cent of any partnership funding be cash;

²⁵ The Hon. Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, *\$150 million in round one Regional Development Australia Funding*, Media Release, 7 September 2011. Further information on steps taken to learn lessons from the first round (including by obtaining feedback from stakeholders) is provided at paragraphs 2.9, 2.10 and 6.25 to 6.30.

²⁶ For example, projects located in capital cities remained eligible but were required to demonstrate that they would benefit the broader region, or other parts of regional Australia.

- requiring not-for-profit organisations to have a minimum annual income of \$1.5 million, so as to demonstrate the capacity of these types of applicants to maintain the project without further redress to Commonwealth funds in the future; and
- clarifying the content of mandatory documents and the format in which those documents were to be lodged.

1.9 Under the two-stage application and assessment process adopted for the second funding round, EOIs closed on 1 December 2011. Full applications for the priority projects selected by RDA committees closed on 15 February 2012. As with round one, Regional Australia was responsible for the initial assessment of applications, and the advisory panel provided advice to the Minister on the most meritorious projects. The announcement of successful applications commenced on 4 June 2012 with those located in Queensland, and announcements continued on a state-by-state basis until 17 July 2012. A total of \$199.7 million was approved to fund 46 projects. Three more rounds of RDAF are proposed.

Grants administration framework

1.10 Grants administration is an important activity for many Commonwealth entities, involving the payment of billions of dollars of public funds each year. Commonwealth grant programs involve the expenditure of public money and thus are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money. That framework includes requirements governing the process by which decisions are to be made about whether public money should be spent on individual grants, as well as various accountability requirements.²⁷

1.11 The CGGs also took effect from 1 July 2009, and represent the whole-of-government policy framework for grants administration. They apply to all agencies subject to the FMA Act and, reflecting the decisions of government,

²⁷ FMA Regulation 9 prohibits approval of a spending proposal unless the approver is satisfied after making reasonable inquiries that it would be a proper use of Commonwealth resources. Where a spending proposal relates to a grant, the approver must record the basis on which they are satisfied that the proposal complies with FMA Regulation 9 (as well as the terms of the approval, which were already required to be recorded for all approved spending proposals).

also include a number of process requirements that apply to Ministers where they exercise the role of financial approver in relation to grants. The CGGs:

- set out seven key principles for grants administration²⁸;
- outline the legislative and policy framework for grants administration, including certain mandatory process requirements; and
- provide guidance on sound practice in grants administration that agencies should have regard to in implementing grant programs.

1.12 This guidance is supplemented by associated Finance Circulars issued by the Department of Finance and Deregulation²⁹ and complemented by the ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, which was revised and reissued in June 2010 following the promulgation of the CGGs.

Joint Committee of Public Accounts and Audit review

1.13 The Joint Committee of Public Accounts and Audit (JCPAA) examined the predecessor program (the Strategic Projects Component of the Regional and Local Community Infrastructure Program), and noted in its report:

The Committee wishes to register its dissatisfaction with the department's failure to provide clear, published assessment criteria for the program. The consequences in terms of wasted time and resources cannot be justified.

The Committee understands that the lack of published assessment criteria contributed directly to the oversubscription of the program. The processes put in place to rectify the situation do not appear to have provided the Minister with clear recommendations regarding the eligibility or otherwise of applications. The Committee is concerned that DRARDLG³⁰ did not provide the Minister with clear, documented advice on which to base their decisions.

²⁸ The seven key principles are: (1) Robust planning and design; (2) An outcomes orientation; (3) Proportionality; (4) Collaboration and partnership; (5) Governance and accountability; (6) Probity and transparency; and (7) Achieving value with public money (see Department of Finance and Deregulation, *op. cit.*, p. 14).

²⁹ There is also a range of other Finance Circulars on the application of the financial framework—see, for example, Finance Circular 2011/01, *Commitments to spend public money (FMA Regulations 7 to 12)*, 31 March 2011.

³⁰ The then Department of Regional Australia, Regional Development and Local Government. See further at footnote 21.

Overall it is the lack of documentation surrounding the final selection of successful applications that is of greatest concern to the Committee as it signals a lack of accountability and transparency. The Committee draws attention to the financial framework requirements, in place since December 2007, regarding the need for Ministers to obtain agency advice on the merits of each proposed grant before making decisions. If this advice is not documented, there is no way for the Parliament or the public to be sure that due process has been followed.

...The Committee recognises the difficulties faced by some local government authorities in complying with stringent application requirements due to lack of access to necessary expertise. Consequently, the Committee supports any attempts to ensure assistance is provided to local government authorities in this regard, including the provision of adequate funding to Regional Development Australia Committees.

The Committee stresses the need for adequate feedback to unsuccessful applicants and encourages the department to put in place processes to ensure that applicants have easy access to such feedback.³¹

1.14 Accordingly, Regional Australia reviewed the key findings and recommendations from relevant ANAO audits and better practice guides, and from relevant House Standing Committee on Infrastructure, Transport, Regional Development and Local Government reviews during the planning phase of the RDAF. The department incorporated these learnings into the design of RDAF, the program guidelines and the proposed administrative arrangements.

Audit objective, criteria and scope

1.15 The objective of the audit was to assess the effectiveness of Regional Australia's management of the design and implementation of the first application round of the RDAF program. The audit examined:

- whether the design of the program reflected lessons learned from audits of previous grant programs and the requirements of the grants administration framework that was progressively implemented between December 2007 and July 2009;

³¹ Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11*, Canberra, July 2011, pp. 48–49.

- whether the business practices of Regional Australia met policy and legislative requirements as well as accountability responsibilities, including those set out in the FMA Regulations and CGGs;
- whether the assessment of projects was undertaken in accordance with the published program guidelines;
- the process by which projects were ranked and subsequently approved for funding; and
- the process by which funding agreements were developed and executed with successful applicants, and feedback was provided to unsuccessful applicants.

1.16 The audit covered the first funding round of the RDAF from the initial planning phase following the 2010 election, through to the finalisation of the funding agreements in May 2012. The audit methodology included:

- an examination of policy documents, guidelines, reports, program and project files, and the grants management information system;
- interviews with senior departmental managers, the advisory panel, program managers and program staff; and
- reviewing the approaches adopted by Regional Australia for delivering the RDAF against relevant findings and recommendations from the JCPAA review and ANAO audits of predecessor programs.

1.17 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$417 000.

Report structure

1.18 The structure of the report is outlined in Table 1.1.

Table 1.1

Structure of the report

Chapter	Chapter overview
2. Access to the Program	Examines the process for submitting applications and the department's assessment of applications against the eligibility criteria.
3. Departmental Assessment of Eligible Applications	Examines the methodology used by the department in conducting preliminary assessments against the selection criteria. It also outlines audit findings concerning the department's assessment of an application's risk, alignment with RDA regional plans, and efficient and effective use of resources.
4. Advisory Panel Deliberations	Examines the key role played by the RDAF advisory panel in assessing eligible applications and recommending to the Minister those applications that should be approved for funding.
5. Advice to the Minister and Funding Decisions	Examines the ranking of eligible applications together with the advice provided to the Minister for Regional Australia as to which applications should be approved for funding, and the funding decisions that were then taken.
6. Funding Distribution, Feedback to Applicants and Signing of Funding Agreements	Provides an overview of the outcome of the first RDAF funding round in relation to the distribution of funding, the provision of feedback to applicants and the development and signing of funding agreements with the successful applicants.

2. Access to the Program

This chapter examines the process for submitting applications and the department's assessment of applications against the eligibility criteria.

Background

2.1 Effective grants administration is supported by agencies adopting application and assessment processes that promote open, transparent and equitable access to grants.³² Similarly, in the interest of achieving probity and transparency, the CCGs state that, unless specifically agreed otherwise, competitive, merit-based selection processes should be used, based upon clearly defined selection criteria.³³ Consistent with these requirements, RDAF involves competitive funding rounds which open and close to applications on nominated dates, with eligible applications received by the closing date being assessed against the selection criteria set out for the program and then ranked against other competing, eligible applications for the available funding.

2.2 The ANAO examined the:

- processes for submitting and receiving applications;
- development and publication of the eligibility criteria in the program guidelines; and
- checking of applications against the eligibility criteria.

Submitting applications

2.3 The program guidelines for the first round of RDAF were published on Regional Australia's website on 11 March 2011 and then amended on 29 March 2011.³⁴ The program guidelines set out the application process, explaining that only fully completed applications that address both the eligibility and assessment criteria, and include all required supporting

³² ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 43.

³³ Commonwealth Grant Guidelines, op. cit., p. 23.

³⁴ The amendments comprised corrections to seven of the paragraphs in the program guidelines, which related to either the application process or the eligibility requirements.

documentation, would be accepted. The guidelines also stated that applications would be received up to close of business on 13 May 2011 and that late applications would not be considered. An update to a Frequently Asked Questions (FAQ) document³⁵, clarified the closing date and time for submitting applications as being Friday, 13 May 2011, 4:59pm Eastern Standard Time.

2.4 Based on previous experience, and the number of enquiries received, Regional Australia had estimated that around 500 to 700 applications would be submitted for the first funding round. The final figure of 553 applications was in line with this estimation (at the lower end of the expected range).

2.5 The risk assessment undertaken by Regional Australia as part of its program planning and development activities, identified several risks associated with the application submission process. While strategies were developed to manage these risks, a range of challenges were nevertheless encountered by the department in providing a timely and effective means for applications to be submitted to the first round of RDAF. This was most apparent in the difficulties experienced by applicants in providing an application, in the requested format³⁶, by the advertised closing date (a large number of applications were received on 13 May 2011).

2.6 The difficulties experienced by applicants included file size restrictions, file titles being too long, 'timing out' issues, browser compatibility issues and applications that could not be uploaded due to document corruption. Given these difficulties, around 40 per cent of applications were submitted using an alternative method, primarily by email. However, applicants also faced challenges emailing their applications because of limits placed on the size of files that could be sent from their own systems or that could be received by Regional Australia. Further, the department's system became overloaded, causing a number of emails to be returned to the sender.

2.7 As a result of the difficulties experienced by applicants, the closing date for the round was extended to 4:59 pm on Tuesday, 17 May 2011. However, the

³⁵ The FAQs were published on Regional Australia's website on 23 March 2011 and then replaced with an updated version dated 20 April 2011.

³⁶ The application form for round one was a SmartForm. Applicants were to upload a completed SmartForm, and any attachments to their application form, on line via Regional Australia's grant management system portal.

extended closing date was not publicised or otherwise made known to all stakeholders either at that time, or subsequently. In addition:

- Regional Australia did not keep a comprehensive register of the date on which each application was received or of the method by which each application was submitted; and
- the process of consolidating the applications received via the various methods of submission, removing any duplications and transferring documents into the grant management system, ran the risk that applications or their attachments would be inadvertently omitted.³⁷

2.8 In relation to the grant management system and portal used to support the application process for the first RDAF funding round, Regional Australia informed ANAO in May 2012 that these systems:

- had been procured when its Programs Division was part of what is now the Department of Infrastructure and Transport; and
- were first used for the third round of the Council Allocation Component of the Regional and Local Community Infrastructure Program (RLCIP) but there was no formal evaluation of its use in that context.

2.9 Further, Regional Australia noted that it is committed to these systems for the administration of its grant programs into the future and ‘they continue to meet our needs’. Nevertheless, following the conclusion of the first application round for RDAF, the department sought to identify lessons that could be learned from the way the relevant systems were used.

2.10 In addition, Regional Australia sought feedback from stakeholders through a series of workshops and by inviting them to complete a feedback form that was available from its website. This was a valuable initiative, as evidenced by the changes that were made to the application process for the second RDAF funding round in response to the feedback received (outlined in paragraph 1.9). Of particular note was that a two-stage application process was

³⁷ It eventuated that documents relating to at least 10 applications, which had been received by Regional Australia, were not transferred into the grant management system and so were not included in the eligibility checking process. Some of these applications would have still been deemed ineligible for other reasons.

introduced. A change was also made to the way applications were to be lodged, with the SmartForm used for round one replaced by a webform for round two. Further information on the use made of the feedback obtained from stakeholders is provided at paragraphs 6.25 to 6.30.

The eligibility criteria

2.11 It is important that program guidelines identify any threshold requirements that must be satisfied for an application to be considered for funding.³⁸ Well constructed threshold or eligibility criteria are straightforward, easily understood and effectively communicated to potential applicants³⁹, with the relevant program's published guidelines clearly stating that applications that do not satisfy all eligibility criteria will not be considered. This helps to:

- reduce frustration and unnecessary costs by assisting potential applicants to avoid developing and submitting applications that are ineligible or that have little chance of success;
- reduce the risk of organisations failing to submit proposals on the mistaken belief that they would not be eligible under the program guidelines; and
- promote consistent and efficient assessment processes.

Identifying and grouping of the eligibility criteria

2.12 Grouping and clearly identifying all threshold requirements in a discrete section of the program guidelines has benefits for both potential applicants and the administering agency. Specifically, adopting this approach can provide a comprehensive checklist of minimum and mandatory requirements that:

- potential applicants can easily use to inform a decision as to whether to invest resources in developing an application; and
- officials or others undertaking the assessment can use to ensure that any applications that fail to satisfy one or more of the threshold requirements set out in the guidelines are identified as being ineligible

³⁸ ANAO Better Practice Guide, op. cit., p. 63.

³⁹ Commonwealth Grant Guidelines, op. cit., p. 22.

for funding consideration. This can then be appropriately reflected in advice provided to the decision-maker.⁴⁰

2.13 The majority of the eligibility criteria for round one were laid out in section 4.7 of the program guidelines, which was titled 'Mandatory Eligibility Criteria'. Other mandatory eligibility requirements were identified either in other sections of the guidelines which were clearly titled as relating to eligibility, or related to the application closing date. Further in this respect:

- the eligibility checklist included at Attachment A of the program guidelines contained each of the requirements that had been set out in section 4.7 of the program guidelines, and the additional requirements from section 4.5; and
- a 'Pre Application Eligibility Check' was included at the beginning of the RDAF application form. It listed the two types of organisations eligible to apply for RDAF funding (that is, local government bodies and incorporated not-for-profit organisations) and also listed the eligibility criteria from section 4.7 of the program guidelines.

Mandatory documentation

2.14 At the end of the RDAF application form was a 'document checklist'. It advised applicants to 'ensure you have attached the following documents when you submit your application' and then, under the heading 'Mandatory Attachments', presented a list of 16 documents and 10 sub-documents. Many of the documents listed had already been clearly identified in the program guidelines as a mandatory requirement. Further, the checklist included 'Annex A Legal Authorisation' and 'Annex B Conflict of Interest' which, while not explicitly mentioned in the program guidelines, could reasonably be interpreted as falling under the broader requirement to submit 'a completed application'.

2.15 However, some of the documents identified as mandatory in the document checklist had not been clearly identified as such in the program guidelines or, in two instances⁴¹, had not been mentioned in the program

⁴⁰ ANAO Better Practice Guide, op. cit., p. 63.

⁴¹ There was no reference in the program guidelines to providing financial reports or project milestones.

guidelines. The ANAO considers that the lack of clarity in relation to some of the mandatory documentation requirements contributed to there being 320 applications assessed as ineligible, in whole or in part, due to mandatory documents not being included with the applications (discussed further at paragraph 2.29).

Eligible applicants

2.16 The program guidelines stated that local government bodies and incorporated not-for-profit organisations were eligible for funding. They further outlined that any organisation, including for-profit companies, could participate as members of a consortium, so long as a local government body or incorporated not-for-profit organisation submitted the application as the lead member. In such cases, the guidance to applicants was that the consortium was to have legal arrangements in place prior to the lead member signing a funding agreement.

Eligibility of not-for-profit organisations

2.17 The glossary of terms in the program guidelines defined an incorporated not-for-profit organisation as follows:

An organisation is a non-profit if its activities are not carried on for the profit or gain of its individual members. The constitution or governing documents of the organisation should prohibit distribution of profits or gains to individual members.

2.18 The FAQs elaborated on the definition of an incorporated not-for-profit organisation. In addition to the attributes outlined in the program guidelines, the first version of the FAQs (published on 23 March 2011) required that not-for-profit organisations:

- be created by law;
- be a legal entity, such that it can sue and be sued in its corporate name;
- have perpetual succession (that is, it continues even if its members die or resign);
- have a public officer and a committee;
- have members;
- have an Australian Business Number or an Australian Company Number; and

- its profits, if any, can only be used to promote its objectives (non profit making).

2.19 The 20 April 2011 version of the FAQs document amended the definition of an incorporated not-for-profit organisation by deleting the reference to ‘Australian Company Number’ and by adding the requirements that:

- it be an incorporated association created by law (under the appropriate Association Incorporation legislation of a state or territory government);
- the objectives and rules of the incorporated association are consistent with the RDAF objectives to build community infrastructure;
- the association can demonstrate that it is eligible for not-for-profit tax exemptions from the Australian Taxation Office; and
- RDA committees are not eligible applicants.

2.20 The definitions consistently excluded unincorporated not-for-profit organisations from being able to apply for RDAF funding in their own right (that is, organisations that do not have a distinct legal status from their members). This therefore excluded some 440 000 of the approximately 600 000 not-for-profit organisations operating in Australia.⁴² This approach reflected that there are increased risks associated with entering into a funding agreement with an unincorporated organisation.⁴³

2.21 Of the remaining 160 000 not-for-profit organisations with a formal legal status, most are incorporated associations under relevant state or territory Acts (136 000) or companies limited by guarantee registered with the Australian Securities and Investments Commission (11 700).⁴⁴

⁴² Productivity Commission, *Contribution of the Not-for-Profit Sector*, January 2010, p. 117.

⁴³ Advice issued by the Australian Government Solicitor summarises these risks as follows: ‘these types of entities do not have the capacity to enter into contracts (or even accept conditional gifts) as a separate entity. As a result, any funding agreement entered into with an unincorporated association or joint venture may be unenforceable, or only enforceable against the individual who signed the agreement. Implications from this can include significantly limiting the agency’s ability to recover funds under the agreement, although the extent to which this is a significant consideration will be a matter for assessment on a case-by-case basis.’ Source: Australian Government Solicitor, *Legal Briefing 83, Grants and Funding Programs: Legal Issues*, 17 August 2010, p. 10.

⁴⁴ Productivity Commission, *op. cit.*, p. 117.

2.22 The 20 April 2011 version of the FAQs document introduced a new requirement that RDAF applicants be incorporated under relevant state or territory legislation, thereby excluding not-for-profit organisations operating under other legal structures (such as companies limited by guarantee) from being eligible to apply in their own right. Introducing a new eligibility requirement at the mid-point of an open funding round, and doing so via an update to the FAQs rather than through the program guidelines, presents challenges in the context of the probity and transparency principle of grants administration outlined in the CGGs.

2.23 Prior to round one applications closing, Regional Australia received at least 15 queries seeking clarification of whether universities were eligible not-for-profit organisations. The department's response varied from universities being told that they were ineligible for funding, to being advised that if they believed that they met the definition of a not-for-profit organisation then they could apply. Similarly, advice obtained by the department, on the eligibility of universities alternated between them being:

- eligible where they could show they are not-for-profit entities;
- ineligible as they were already funded by the Australian Government;
- ineligible as they are not incorporated associations created by law; and
- possibly eligible under the RDAF guidelines and FAQs document where they could show that it was a company, body corporate or other incorporated entity and that it was not set up to earn its members a profit.

The eligibility checking process

2.24 A significant issue raised in ANAO's audit of the first round of the predecessor program (the Strategic Projects Component of the RLCIP) was that the eligibility and compliance checking process that had been developed was abandoned part-way through its implementation and was not replaced with an alternative, systematic consideration of eligibility and compliance.⁴⁵ As a consequence, rather than ineligible and incomplete applications being

⁴⁵ ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Communities Infrastructure Program*, Canberra, 27 July 2010, p. 21.

excluded from further consideration as per the program guidelines, all applications to that earlier program were considered for possible funding.

2.25 Significant improvements were apparent in respect to round one of the RDAF, with Regional Australia checking the eligibility of each application received against the eligibility criteria outlined in the program's guidelines. Only those applications assessed as eligible progressed to the next stage of the assessment process, and no applications assessed as ineligible were considered by the RDAF advisory panel.

2.26 Assessment guides, checklists and quality assurance processes are valuable aids for ensuring that eligibility criteria are applied accurately and consistently. This is particularly the case for programs like the RDAF, where there are a large number of applications and a large number of assessors, some of whom are not normally part of the grant program team.

2.27 In this context, each RDAF application received by Regional Australia was assigned to one of a pool of assessors for checking against the eligibility criteria. The assessors were required to complete an electronic checklist within the department's grant management system for each application, as well as four paper-based checklists. The eligibility check undertaken by the assessor was then reviewed by a team leader for quality assurance purposes. A proportion also underwent a subsequent quality assurance review by a section head.⁴⁶ At times, the determination made by the original assessor was overturned during the quality assurance process.

The number of applications deemed ineligible

2.28 Regional Australia checked all 553 applications against the eligibility criteria. Of these, 348 applications were assessed as ineligible. That is, 63 per cent of all applications received for the first round were ineligible for funding. In ANAO's experience, this is a high rate of ineligibility for a competitive grants program. It was also considerably higher than the 20 per cent that Regional Australia had estimated would be ineligible during the program planning phase.

⁴⁶ Regional Australia advised that section heads (which are management-level officers) checked 100 per cent of applications that were possibly ineligible and approximately 40 per cent of the remainder.

2.29 As a result, the number of eligible applications provided to the panel was considerably less than the number anticipated during the planning of the program. Specifically, rather than assessing between 400 and 560 eligible applications⁴⁷, the panel only had to assess 204 applications.⁴⁸ Of the 348 applications deemed ineligible, 92 per cent were assessed as failing to provide one or more mandatory documents. The lack of clarity in relation to some of the mandatory documentation requirements is indicated by Regional Australia assessing:

- 43 applications as ineligible due to, in whole or in part, no evidence of community consultation taking place and/or no evidence of community support being included with the application;
- 83 applications as ineligible, in whole or in part, due to a business case not being submitted;
- 228 as ineligible, in whole or in part, due to failure to provide a project, risk and/or other plan; and
- 178 applications as ineligible, in whole or in part, for not providing financial data. For 30 applications, the absence of financial reports for the last three years was the only reason for the application being assessed as ineligible.

2.30 Another notable feature of the eligibility checking results related to applications submitted by not-for-profit organisations. The application form did not require applicants to submit all of the documentation necessary to check their eligibility against the definition of an incorporated not-for-profit organisation set out in the updated FAQs. For example, applicants were not asked to submit a copy of their constitution or governing documents.

Conclusion

2.31 Regional Australia had estimated it would receive between 500 and 700 applications for RDAF funding under the first round. In total, 553 applications were received, at the lower end of the expected range.

⁴⁷ Calculated based on the planning estimate of between 500 and 700 applications (see paragraph 2.4) of which 80 per cent would be eligible.

⁴⁸ There were 205 applications assessed as eligible and, as one of these was subsequently withdrawn by the applicant, 204 were provided to the panel for consideration.

2.32 Applications were to be lodged online via Regional Australia’s grant management system portal. However, significant issues arose with the use of this portal, making it difficult for applicants to lodge their applications. In this context, following the conclusion of the first application round, the department sought to identify lessons that could be learned from the application lodgment process. In light of stakeholder feedback, changes were made to the application process for the second RDAF funding round.

2.33 Eligibility requirements for the first round of RDAF were set out across the program guidelines, a related Frequently Asked Questions (FAQ) document published on Regional Australia’s website as well as in the application form. Regional Australia checked the eligibility of each application received for RDAF against the eligibility criteria. Only those applications assessed as eligible progressed to the next stage of the assessment process. The systematic checking of all applications received against the eligibility criteria, and subsequent exclusion of applications that the department considered to be non-compliant with the eligibility criteria, was an improvement over the process that had been implemented for the first round of the predecessor program.

2.34 Of the 553 applications that were recorded as having been received, 348 (63 per cent) were assessed by Regional Australia as ineligible. Compared to other applications-based competitive grant programs (including for community infrastructure) examined by ANAO, this was a high rate of ineligibility. It was also considerably higher than the department had estimated during the program planning phase, which was that around 20 per cent of all RDAF applications would be ineligible. This situation does not reflect well on the accessibility of the program to applicants.⁴⁹

⁴⁹ ANAO’s analysis of the eligibility checking process indicates that the approach taken to identifying eligibility requirements in a number of different places, and changes made after the program opened to applications, contributed to a high number of applications being assessed as ineligible.

3. Departmental Assessment of Eligible Applications

This chapter examines the methodology used by the department to conduct preliminary assessments against the selection criteria. It also outlines the department's assessment of an application's risk, alignment with RDA regional plans, and efficient and effective use of resources.

Background

3.1 The program guidelines for the RDAF stated that Regional Australia's role involved: checking applications for eligibility against the threshold criteria; ensuring the efficient and effective use of resources; checking for applications' alignment with RDA regional plans and undertaking risk assessments of applications.

3.2 Against this background, the ANAO examined Regional Australia's:

- conduct of risk assessments;
- assessment of the extent to which the eligible applications were aligned with the relevant regional plans;
- assessment work undertaken in relation to whether the proposed projects represented an efficient, effective and economical use of public money (often, this is referred to as a 'value for money' test); and
- preliminary analysis of the extent to which each eligible application met the published assessment criteria.

Conduct of risk assessments

3.3 An issue that arose in previous audits of regional grant funding programs involved the rigour of risk assessments and the consistency of risk ratings that were allocated. For the first round of RDAF, all risk assessments were undertaken by contracted providers, with Regional Australia seeing that this approach would assist it to obtain assurance that a rigorous approach would be adopted. The result was improved risk assessments compared with predecessor programs.

Risk assessment results

3.4 The template created by Regional Australia for use by the external providers when conducting the risk assessments allowed the deliberation and rating of risks according to 20 'considerations' across five categories, as shown by Table 3.1.

Table 3.1

Risk categories and the number of considerations per category

Risk category	Number of considerations
Corporate and Personnel	2
Management of Grant Funds	2
Project Delivery	10
Project Sustainability	3
Proponent's Financial Position	3

Source: ANAO analysis of Regional Australia documentation.

3.5 Using a risk matrix provided by Regional Australia, the external providers assessed the projects' pre- and post-treatment risks, recorded risk mitigation strategies (where possible) and assigned ratings of: *Very Low*, *Low*, *Medium*, *High* or *Severe* across the 20 considerations. The external providers also allocated an overall risk rating for each of the five risk categories, based upon consideration of the collective potential risks within the categories, for each application.

3.6 As illustrated by Table 3.2, overall the external providers did not identify that there were significant post-treatment risks across the population of eligible applications. There were relatively few instances where the final overall risk rating in any category was rated as *High* or *Severe*, with no such instances being identified under the Corporate and Personnel category and only one instance in the Management of Grant Funds category. There were 21 instances across 16 applications where ratings of *High* or *Severe* were allocated.

Table 3.2

Post-treatment risk ratings by category according to external providers

Category	Very Low	Low	Moderate	High	Severe
Corporate and Personnel	176	26	2	–	–
Management of Grant Funds	118	73	12	1	–
Project Delivery	60	104	28	7	5
Project Sustainability	75	112	15	2	–
Proponent’s Financial Position	93	80	25	4	2
Total	522	395	82	14	7

Source: ANAO analysis of Regional Australia data.

3.7 A number of different risk assessment templates were used, and the external providers had applied different methodologies and interpretations of the RDAF risk matrix. Further, the extent to which a risk treatment was considered capable of mitigating risks to lower levels also varied across the external providers.

3.8 Regional Australia had noted the inconsistencies across the risk assessments and so, prior to applications being considered by the panel, adjusted their results in line with the department’s interpretation of the risk matrix. The degree to which the risk profile of an application changed depended on how consistent the external provider’s approach had been to the department’s approach. The overall result was an increase in the number of *Moderate* and *High* risks. This was largely an effect of the department aligning the degree of impact of a risk occurring with the amount of RDAF funding requested, causing the risk profile of those seeking over \$10 million, in particular, to increase.

3.9 Regional Australia did not include an explanation for the apparent differences when it provided the two sets of risk assessment results to the advisory panel and to its Minister. Further, both sets were attributed to the contracted providers. Accordingly, it would not have been clear to either the panel or the Minister which of the conflicting risk assessment results constituted the department’s advice on the risks associated with each project.

Alignment with RDA regional plans

3.10 The program guidelines outlined that Regional Australia would assess each application’s level of alignment with the regional plan developed by their

respective RDA committee. To be eligible for funding, applications had to include a letter of endorsement from the RDA committee in the area where the project will be located and, if applicable, in the areas where the project will have a significant impact. The RDA committee had to set out how the project aligned with its regional plan.

3.11 Regional Australia's grant management system contained only one field for recording the degree of alignment. Where an applicant submitted letters from multiple RDA committees, the department recorded the most positive degree of alignment.⁵⁰ The department recorded that all eligible applications either aligned or strongly aligned with the regional plan. Of the 348 applications deemed ineligible, the department:

- recorded that eight did not align with the regional plan;
- recorded that 271 either aligned or strongly aligned with the regional plan; and
- did not record a degree of alignment for the remaining 69 applications.

3.12 While the program guidelines did not outline that projects assessed as strongly aligned with the relevant regional plan would be preferred over those recorded as aligned, projects recorded as strongly aligned represented both the significant majority of applications the advisory panel recommended be approved and the significant majority of applications subsequently approved for funding by the Minister. In this respect, as illustrated by Table 3.3:

- 17 of the 25 applications (68 per cent) the panel recommended be awarded funding had been recorded as strongly aligned, with 14 of these subsequently approved for funding; and
- 22 of the 35 applications (63 per cent) subsequently approved for funding by the Minister had been recorded as strongly aligned.

⁵⁰ As a consequence of this practice, the information given to the advisory panel and to the Minister about the Baldivis Library and Community Centre project (which was approved for funding) identified the primary RDA area as being RDA Perth, and stated that the project was strongly aligned with the regional plan. However, the letter from the committee for RDA Perth had stated that the project was not aligned with its regional plan. The assessment of 'strongly aligned' had come from a letter of endorsement from the committee for the Peel RDA, which stated that, although not located in the Peel region, the project had the potential to impact on the Peel region and was strongly aligned with its regional plan.

Table 3.3

Assessment of extent to which eligible projects were aligned with the relevant regional plan

Assessment	Number of applications	Recommended for Funding		Suitable for Funding, or Not Recommended for Funding	
		Categorised by panel	Approved by Minister	Categorised by panel	Approved by Minister
Aligned	101	8 (7.9%)	7 (87.5%)	93 (92.1%)	6 (6.5%)
Strongly Aligned	103	17 (16.5%)	14 (82.4%)	86 (83.5%)	8 (9.3%)
Total	204	25 (12.3%)	21 (84.0%)	179 (87.7%)	14 (7.8%)

Source: ANAO analysis of Regional Australia data.

Initial merit assessment

3.13 As noted in the ANAO Better Practice Guide, assessment criteria are the criteria against which all eligible, compliant applications will be assessed in order to determine their merits against the program objectives and, for competitive programs, against other competing applications.⁵¹ Further, the assessment process implemented in relation to a grants program needs to accord with the processes set out in its published guidelines. The CCGs advise that unless specifically agreed otherwise, this process should be a competitive, merit-based selection process, based upon clearly defined selection criteria.⁵²

3.14 In the design of RDAF, Regional Australia responded positively to earlier ANAO recommendations to include the program’s assessment criteria in the published guidelines. Specifically, the program guidelines for the first round outlined that all eligible applications would be assessed against these criteria (shown in Table 3.4).

⁵¹ ANAO Better Practice Guide, op. cit., p. 62.

⁵² Commonwealth Grant Guidelines, op. cit., p. 29.

Table 3.4

Assessment criteria for the first funding round of RDAF

Criteria	Description
Criterion 1	Extent to which the project leverages funding from a variety of sources
Criterion 2	(A) Extent to which the project will contribute to and sustain regional economic growth; and/or (B) Extent to which the project will provide community benefit
Criterion 3	Sustainability and ongoing viability
Criterion 4	Demonstrated capacity to implement and maintain the project
Criterion 5 (Not-for-profit applicants only)	Extent to which the project supports services to regional communities

Source: Regional Development Australia Fund Guidelines—Round One, March 2011.

3.15 While the program guidelines allocated the RDAF advisory panel responsibility for the merit assessment of applications against the published assessment criteria, Regional Australia prepared application summaries for the advisory panel’s consideration that included preliminary analysis of each eligible application against the published assessment criteria.

Assessment criteria rating approach

3.16 Particularly where competitive funding rounds are used, the purpose of the assessment criteria is to provide an efficient and effective means of differentiating between the eligible, compliant applications that are seeking access to the available funding. As noted in ANAO’s Better Practice Guide, relevant considerations in this respect include:

- whether it would be appropriate to assign relative weightings to individual assessment criteria, in order to target available funding at projects that exhibit particular characteristics; and
- the method and scale that will be applied in rating and (where relevant) ranking individual applications.⁵³

⁵³ ANAO Better Practice Guide, op. cit., pp. 65–66 and pp. 75–76.

3.17 In this context, the published assessment criteria for the first RDAF round were not assigned any relative weightings. Regional Australia staff undertook a qualitative assessment against the published assessment criteria for each of the 204 applications identified as eligible and assigned ratings of 'Poorly Developed', 'Developed' and 'Well Developed' against each applicable selection criterion. To inform the preliminary assessment, for each criterion the department's internal procedures manual outlined the features that an application would exhibit in order to be allocated a rating of Poorly Developed, Developed or Well Developed and defined these ratings, as follows:

- Poorly Developed: the applicant has not made a compelling case nor provided sufficient collaborating evidence to substantiate their claims;
- Developed: the applicant has presented a firm argument to demonstrate that they have addressed the criteria including the provision of some collaborating evidence to substantiate their claims; and
- Well Developed: the applicant has presented a compelling argument to demonstrate that they have addressed the criteria including the provision of collaborating evidence to substantiate their claims.

3.18 Regional Australia's approach involved the use of an ordinal rather than numerical scale. In this respect, as outlined in ANAO's Better Practice Guide, numerical rating scales have a number of advantages in differentiating effectively between individual projects and classes of project, including:

- the use of ordinal scales usually results in fewer rating points, with a greater number of applications in each rating point, than numerical scales;
- there are not fixed differences between the respective ratings when an ordinal scale is used; and
- there is not a clear basis for consistently combining qualitative ratings against each criterion into an overall qualitative rating of individual

applications, making it more difficult to differentiate the relative merits of projects.⁵⁴

3.19 Accordingly, the use of qualitative ordinal scales⁵⁵ makes it inherently more difficult to arrive at an overall rating for each application. This difficulty is exacerbated in the context of RDAF because of the varying number of criteria assessed across applicants. It was acceptable for applications to have responses to four, five or six of the assessment criteria. For example, Criterion 5 was only applicable to not-for-profit organisations, and applicants were able to answer either Criteria 2A or 2B, or could choose to answer both.

3.20 Both the structure of the assessment criteria and the limited alternatives provided for the assessment ratings revealed a further difficulty in enabling a clear differentiation between projects of varying merit that shared the same ratings (in relation to a single criterion).

3.21 In relation to numerical rating scales, ANAO's Better Practice Guide outlines that useful results will only be produced if they are based on a sound underlying methodology, and that care should be taken with the range of numerical ratings for each criterion and the weighting of the criterion relative to others so as to avoid potential misinterpretation or unintended consequences.⁵⁶ In this context, ANAO's recent audits of grants programs across a number of agencies have shown a trend towards greater use of numerical scoring systems.

3.22 As is outlined at paragraphs 4.18 to 4.24, in its subsequent merit assessment of eligible applications, the RDAF advisory panel used a numerical scoring system when assessing those applications previously identified by the panel as being at least suitable for funding. Each panel member allocated each of these applications an overall score of either five if it met the selection criteria or 10 if it strongly met the selection criteria. This provided a basis for an aggregate score⁵⁷ to be calculated having regard to each member's individual score, an approach that was not possible relying upon Regional Australia's

⁵⁴ ANAO Better Practice Guide, op. cit., pp. 65–66 and p. 75.

⁵⁵ Such as: 'High/Medium/Low' or 'Highly meets/Generally meets/Barely meets/Does not meet'.

⁵⁶ ANAO Better Practice Guide, op. cit., pp. 65–66 and p. 76.

⁵⁷ This scoring of either five or 10 allowed for an aggregate minimum score of 25 and a maximum of 50.

ordinal system of allocating ratings against each individual criterion. The aggregate score was then used to assist the panel to focus on the applications that were considered to be the most meritorious.

3.23 However, the panel's approach did not involve panel members allocating a score for each application against each individual criterion. As a result, there is not a clear alignment between the aggregate score allocated to individual applications, and the underlying assessment of each application against each criterion. For example:

- there were four applications awarded an aggregate score of 50 out of a maximum of 50. Of those four applications, two had been assessed as Well Developed against all relevant criteria. However, two had been assessed as Developed against two criteria, and Well Developed against the remainder. These two latter applications, and one of the other two, were ultimately included in the Recommended for Funding category and all three were approved for funding by the Minister; and
- there were 37 applications with an aggregate score of 25 out of 50, indicating that none of the applications had been assessed by a panel member as having strongly met the selection criteria. In one instance, the application was ultimately included in the Recommended for Funding category and was approved for funding. Another application that had an overall score of 25 was also approved for funding.

Value for money assessment

3.24 Value for money is one of the seven key principles for grants administration outlined in the CGGs. Whilst the Commonwealth Procurement Rules outline that value for money is the core rule underpinning Australian Government procurement, value for money is not expressed in the CGGs as being more or less important than the other key principles for grants administration.

3.25 Nevertheless, the CGGs outline an expectation that value for money will be a prime consideration in determining funding recipients under a grant program, and advise agencies that achieving value in grants administration involves the careful comparison of costs, benefits and options. In addition, under the Commonwealth's financial framework, the overall test as to whether public money should be spent requires consideration of whether a spending proposal represents efficient, effective, economical and ethical use of public

money that is consistent with the policies of the Commonwealth (particularly the CGGs and the grant program guidelines). Often, this is referred to as a 'value for money' test.

3.26 The interrelationship between overall value for money and the requirements of the Commonwealth's financial framework was recognised in Regional Australia's internal procedures manual, which stated that:

Value for money is the test applied under FMA Regulation 9 to determine proper use.

Proper use is:

- Efficiency – maximising the ratio of outputs to inputs;
- Effectiveness – the extent to which intended outcomes are achieved; and
- Economy – minimising cost, that is avoiding waste and increasing the focus on using Commonwealth resources to achieve outcomes.

Whether a project represents Value for Money is not a separate assessment but rather the culmination of the entire assessment process including for RDAF: eligibility, selection criteria and risk.

Economic use of resources

3.27 The program guidelines for the first RDAF application round outlined that value for money considerations would be focused on whether the cost of the project was reasonable having regard to the way in which the project would be delivered as well as relevant benchmarks. Specifically, the guidelines stated:

Applications should outline the proposed method for delivering the project. Generally, value for money requires that the project can be delivered at a reasonable whole-of-life cost which may involve open tendering in procurement or mechanisms to ensure competitive delivery with project delivery arrangements.

Project costs must compare favourably with available benchmarks for the activities being undertaken. Assessment of value for money may include consideration of factors such as:

- fit for purpose;
- the performance history of the proponent;
- the risks;

- the flexibility to adapt to possible change of the project according to risks;
- the evaluation of risk mitigation options; and
- projected community benefits and/or use.

3.28 In terms of the financial framework, adopting such an approach to value for money analysis particularly focuses on the issue of whether each project was economical, although the approach outlined in the guidelines recognised that the projected community benefits and/or use are an important factor to be addressed in any value for money analysis. Including such guidance in the published program guidelines indicated further improvements in Regional Australia's grants administration practices.

3.29 In response to an earlier ANAO audit⁵⁸, Regional Australia agreed to an ANAO recommendation that it analyse the value for money of proposals received, including analysing the expected outcomes to be achieved for the funding sought and assessing whether the proposed cost was reasonable. In this respect, Regional Australia advised ANAO in March 2012 that it was undertaking this approach already in respect to its current programs, including the Community Infrastructure Grants program and RDAF.

3.30 For the first RDAF round, examination of project costs was a task allocated to the external providers (in the context of assessing project delivery risks). Specifically, one of the considerations each external provider was to address for each application was:

Project costs must compare favourably with available benchmarks for the activities being undertaken.

3.31 In this respect, the external providers identified instances where project costs were not supported by estimates, the estimate was inconsistent with the project budget included in the RDAF application or the estimates were higher than relevant benchmarks. The approach adopted was to propose ways in which any risk to project delivery could be managed through the funding agreement (in the event funding was approved). However, Regional Australia did not address in its assessment how such applications could be seen to not

⁵⁸ ANAO, Audit Report No.27 2011–12, *Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund*, Canberra, 20 March 2012, Recommendation No. 2(a), p. 80.

represent an economical use of public money. This approach does not sit comfortably with Regional Australia's response to Recommendation No. 2(a) in ANAO Audit Report No. 27 2011–12.⁵⁹

Advising the decision-maker of the results of the value for money analysis

3.32 The internal procedures manual further outlined that value for money at the program level was to be considered by Regional Australia and the Minister, with consideration of value for money at the level of individual projects to be undertaken by the advisory panel. Nevertheless, the procedures manual also outlined factors⁶⁰ that assessors were to take into account in forming a view as to whether a project represented value for money. However, assessors were not required to record whether or not a project represented value for money.⁶¹ As a result, neither the material provided to the advisory panel, nor the briefing provided by Regional Australia to its Minister, included for each project advice from the department as to whether it represented value for money. Rather, Regional Australia's briefing to the Minister on the outcome of the assessment of applications advised the Minister that:

The department's assessment of all eligible applications confirms that they meet the value for money requirements set out in the CGGs and FMA.

3.33 In other words, only those applications assessed as ineligible were considered by Regional Australia to not represent value for money. Accordingly, Regional Australia's advice that all eligible applications represented value for money included the 62 applications the panel had categorised as Not Recommended for Funding (see further at Table 5.1).

3.34 Earlier in the briefing the department had advised the Minister that all applications categorised by the panel as Recommended for Funding and Suitable for Funding represented value for money. Accordingly, this advice

⁵⁹ See paragraph 3.29.

⁶⁰ These factors were listed as questions under the headings: outcomes (effectiveness); financial (efficiency and economy); and risk. The procedures manual instructed assessors that: 'If your answers to the questions above are predominantly positive and the risk is low or medium (or can be reduced with treatments), then the project will pass the value for money test.'

⁶¹ Specifically, the procedures manual advised that: 'Value for Money is not recorded in *[the Grant Management System]*; however it can be included in 'Merit Assessment' overall comments.'

suggested that the 63 applications in the Suitable for Funding category which had been assessed as Poorly Developed against at least one of the assessment criteria represented value for money.⁶²

Conclusions

3.35 Assessment criteria were developed and published in the program guidelines. Regional Australia assessed eligible applications in terms of:

- risk, including the extent of any risks to the proposed project being delivered and sustained;
- the extent to which the project was aligned with the regional plan for the relevant RDA committee; and
- the extent to which the application met the published assessment criteria, to assist the advisory panel (which was responsible for the final merit assessment of each eligible application).

3.36 A significant improvement in the administration of this grants program compared with earlier ones was the inclusion of assessment criteria in the published program guidelines, and Regional Australia assessing each eligible application in terms of the relevant criteria (not all criteria were relevant to each application). There were few instances where the panel records indicated it had a different view as to the extent to which an application met one or more of the assessment criteria.

3.37 Regional Australia's approach to the initial merit assessment involved the use of an ordinal rather than numerical scale. In this respect, numerical rating scales have a number of advantages in differentiating effectively between individual projects and classes of projects.⁶³

3.38 In its subsequent merit assessment of eligible applications, the RDAF advisory panel used a numerical scoring system to assess applications it considered to be at least suitable for funding against the selection criteria. This

⁶² Some of these applications had also been assessed as involving a high level of project risk.

⁶³ As outlined in ANAO's grants administration Better Practice Guide (ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, June 2010, pp. 65–66 and p. 75), numerical rating scales have a number of advantages in differentiating effectively between individual projects and classes of projects. Consistent with this, ANAO's recent audits of grants programs across a number of agencies have shown a trend towards greater use of numerical scoring systems.

provided a basis for an aggregate score to be calculated having regard to each member's individual score. However, the panel's approach did not involve panel members allocating a score for each application against each individual criterion. As a result, there is not a clear alignment between the aggregate score allocated to individual applications, and the underlying assessment of each application against each criterion.

3.39 For future funding rounds, the assessment process would be strengthened if the rating scale that is used differentiated more effectively between individual projects and classes of projects so as to enable a clearer link between the final ranking of eligible applications and the underlying assessment of each application in terms of the published merit assessment criteria.

Recommendation No.1

3.40 To provide a more efficient and effective means of differentiating between eligible applications in terms of their overall claims against the published assessment criteria, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport, in consultation with the Regional Development Australia Fund advisory panel, adopt a numerical rating scale for the merit assessment stage of future funding rounds.

3.41 **Regional Australia response:** *Agreed.*

The Department of Regional Australia, Local Government, Arts and Sport will discuss options to adopt a rating scale which provides differentiation between eligible applications with the Regional Development Australia Fund Advisory Panel.

3.42 The program guidelines outlined, in the context of overall value for money, that Regional Australia would analyse project costs for each application in terms of how they compare with available benchmarks. Undertaking analysis of this kind had been recommended by ANAO in the audit of a predecessor program. Some work in this regard was done by the firms contracted for the risk assessments. The results were used to identify risks that might need to be managed in the event funding was approved. However, the information obtained was not used by Regional Australia to inform an assessment as to whether each eligible application represented value for money, and individual assessments in this regard were not recorded.

3.43 In addition, only those applications assessed as ineligible were considered by Regional Australia to not represent value for money. In this respect, the department advised its Minister that applications the panel was not recommending for funding still represented value for money notwithstanding that a significant number of these had been assessed as Poorly Developed against one or more assessment criteria (and, in some cases, with a high level of associated project risk).

Recommendation No.2

3.44 In designing and administering grant programs, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport clearly outline to decision-makers the basis on which it has been assessed whether each application represents value for money in the context of the published program guidelines and program objectives.

3.45 **Regional Australia response:** *Agreed.*

The Department of Regional Australia, Local Government, Arts and Sport notes that confirmation of value-for-money was included in the Application Overview provided to members of the Regional Development Australia Fund Advisory Panel in Round Two.

4. Advisory Panel Deliberations

This chapter examines the key role played by the RDAF advisory panel in assessing eligible applications and recommending to the Minister those applications that should be approved for funding.

Background

4.1 The RDAF advisory panel (the panel) was established to inject expertise and to strengthen the independence of the advice provided to the Minister in relation to which applications should be funded under the RDAF. The chair and members of the panel were appointed by the Minister, and can serve for a period of up to three years. The program guidelines stated that the panel would meet as required by the Minister, but at least six-monthly as a minimum for the duration of the program.⁶⁴

4.2 Against this background, the ANAO examined the:

- roles and responsibilities of the panel and the department;
- support and information provided to the panel by Regional Australia;
- panel's assessment, ranking and categorisation of eligible applications; and
- panel meeting arrangements, including conflicts of interest procedures and record keeping.

Roles and responsibilities

Advisory panel

4.3 The program guidelines outlined that the panel was to assess all eligible applications. In making its assessment, the panel was to consider the relative merits of the applications based on information provided by Regional Australia and through the assessment of each eligible application against the published assessment criteria.

⁶⁴ Department of Regional Australia, Local Government, Arts and Sport, *Regional Development Australia Fund Guidelines—Round One*, March 2011, p. 9.

4.4 Further, the guidelines explained that the panel would categorise each eligible application as being either: ‘Recommended for Funding’; ‘Suitable for Funding’; or ‘Not Recommended for Funding’. All proposals within the Recommended for Funding and Suitable for Funding categories were to be ranked in order of merit.⁶⁵

Assessment framework

4.5 The panel’s deliberations were preceded by a number of meetings between Regional Australia and the chair of the panel, as well as an induction day that was attended by the majority of panel members. The department advised ANAO that the purpose of these sessions was to ensure that the panel had a sound understanding of the RDAF program, its objectives and outcomes, the assessment process undertaken by the department, and the panel’s roles and responsibilities (including conflict of interest and confidentiality obligations).

4.6 The panel convened over seven days during August 2011 to assess the eligible applications and determine its recommendations.⁶⁶ The first day of panel deliberations was 7 August 2011, and it initially focused upon determining the process that would be used to assess the applications. By the conclusion of the day, the panel had agreed on an assessment framework and requested that Regional Australia document these arrangements prior to the next meeting the following day.

4.7 The panel reviewed and agreed to this documented assessment framework at the commencement of the second day of deliberations. The methodology used to assess the applications evolved throughout the panel deliberations. The final version of the assessment framework was included as an attachment to the departmental briefing to the Minister that presented the panel’s funding recommendations.

4.8 Against this background, in July 2012 Regional Australia advised ANAO that:

⁶⁵ Department of Regional Australia, Local Government, Arts and Sport, *Regional Development Australia Fund Guidelines—Round One*, March 2011, p. 10.

⁶⁶ The panel convened for the purposes of assessing the eligible RDAF applications on 7, 8, 9, 15, 16, 17 and 24 August 2011.

The advisory panel reviewed all eligible applications, and categorised them as 'Recommended for Funding', 'Suitable for Funding' and 'Not Recommended for Funding'. The department provided a suite of information to assist the panel in its assessment, including material sourced directly from each application, advice from state and territory governments and other Commonwealth agencies, advice on risk from independent experts, and an analysis of the case presented by the applicant against the selection criteria.

The advisory panel considered all of this information, and added its own expertise, knowledge and experience to the assessment. This experience, knowledge and expertise was around, amongst other things, the issues facing regional and rural Australia in a general sense, issues and challenges impacting on a particular state or territory or region, knowledge of a particular project or like projects located across the region, state or territory, and knowledge of the potential benefits of projects on communities and regions.

Role of the department in supporting the panel

4.9 The program guidelines outlined that Regional Australia's role in the assessment of eligible applications was to 'assess the efficient and effective use of resources, alignment with RDA Regional Plans and risk assessment.' The guidelines further outlined that information on these issues would then be provided to the advisory panel.

4.10 In addition, Regional Australia was responsible for providing secretariat support to the panel to assist it in fulfilling its role and meeting its obligations. Among other things, the secretariat was responsible for:

- developing meeting agendas and co-ordinating meeting papers;
- maintaining appropriate records of meetings;
- facilitating information flow between the panel and the Minister; and
- providing research and policy support.

Information provided to the panel

4.11 Regional Australia's preliminary assessment of each eligible application against the selection criteria, the findings of the risk assessments and the applicants' responses to the selection criteria were used to create an application summary for each application.

4.12 The summaries contained most of the key information from the applications. However, they included limited information about the project

and did not include the applicant's description of the activity for which it was seeking RDAF funding.⁶⁷ Such an approach did not allow the panel to have a full understanding of the scope of activities that the RDAF funding would be used for, and the resulting benefits that could be expected from RDAF funding being granted.⁶⁸

4.13 Another area where the summaries could have been improved related to applications that claimed to provide cross-regional benefits. The summaries stated the RDA locality of a proposed project and whether the project was strongly aligned or aligned to the regional plan. In addition, some applications contained letters of endorsement from several RDA committees and claimed that the projects had cross-regional benefits. However, the summaries for these applications did not mention these secondary RDA localities and endorsements.⁶⁹

4.14 Regional Australia also gave the panel four spreadsheets that listed, for every eligible application, the: outcome of the department's analysis against the selection criteria; funding requested and total project value; the state and RDA region; and the RDAF project category.⁷⁰ The panel members were not provided with a copy of the applications. However, the panel was able to request a copy of an application. Based on the records of the panel meetings, one panel member requested a copy of two applications.

⁶⁷ Similar to predecessor programs, for RDAF the 'project' was defined as the entire scope of work proposed to be undertaken (which could be over a number of years, in a number of stages, some of which may already have been completed) with the 'activity' defined as that component of the project for which RDAF funding was being sought (where funding was not being requested for the whole project).

⁶⁸ Also, the summaries did not state whether the RDAF activity to be funded was identical in scope to the project (for example, the RDAF activity could be one stage of a three-stage project).

⁶⁹ For example, an application for an intermodal freight hub that was located in one RDA area but had relevance to a neighbouring area included a letter of endorsement from the primary RDA committee. Accordingly, the application summary noted that the project was 'strongly aligned' to that committee's regional plan. However, the summary did not mention that the applicant had also submitted a letter of endorsement from the neighbouring RDA committee, which confirmed that the project was 'aligned' to its regional plan. The panel may have benefited from this information, particularly given that the panel's funding recommendation letter to the Minister stated: '(t)he panel has not recommended this project for funding in Round One as it has concerns about ... competition with existing freight hubs in Albury, Griffith and Ettamogah...'. In this respect, the letter of endorsement from neighbouring RDA stated 'The hub will work collaboratively with similar hubs located in the Murray region and not in direct competition.'

⁷⁰ The application form had asked each applicant to select from a list of project categories and subcategories that described the works to be undertaken.

4.15 The panel could also request further information on any eligible application. Regional Australia staff were present at the panel meetings, and were on call in the department's offices, to respond to any such requests quickly. The records of the panel meetings indicate that the panel requested additional information on approximately 16 per cent of the eligible applications. This information was gathered from various sources, including from the application, the Internet and from state and Commonwealth agencies.

4.16 In July 2012, Regional Australia advised ANAO that:

The overview for round two was reworked, in consultation with the panel, to include more information on projects, activities for which funding was requested and outputs that will be delivered, a 'dashboard', and more information on location of the project (town, Local Government Area, and RDA area, located in a capital city). In addition, panel members were given access to the *[department's]* database, ensuring that they could review any supporting document provided by an applicant prior to the meeting.

The department notes that the overview for the advisory panel for round two includes a description of the project. In addition, where funding is requested for one component of that project (that is, an activity), the overview also includes a description of that component. As such, the project and component of the project for which RDAF funding is being sought are both clearly described.

Panel's initial assessment

4.17 The summaries for the 204 eligible applications were separated into two tranches (100 in the first tranche and 104 in the second tranche) in preparation for assessment by the advisory panel.

Initial assessment of the first tranche applications

4.18 The panel met on 8 August 2011 to consider the first tranche of eligible applications. As Regional Australia had not provided the application summaries for six of the applications to the panel prior to the meeting, assessment of these six was held over until the following day to allow members time to consider the summaries. The panel commenced the assessment process by categorising the other 94 applications from the first tranche as either Not Recommended for Funding (NRF) or Suitable for

Funding (SFF).⁷¹ Each panel member voted NRF or SFF for each application. The secretariat then tallied the votes and the application was categorised according to the majority vote. Regional Australia did not keep a copy of the panel members' votes. The panel then discussed each application categorised as NRF and either confirmed it as NRF or changed it to SFF.

4.19 To identify those applications that had the strongest support, each panel member then scored each application that had been categorised as SFF as either:

- 10, if they considered that it strongly met the selection criteria overall; or
- five, if they considered that it met the selection criteria overall (members could not give a score that was less than five).

4.20 With the five panel members each able to allocate a score to each application of either five or 10, this process resulted in each application categorised as SFF being awarded a score of between 25 and 50, with the highest score representing the most meritorious application. The panel decided that applications that achieved a score of 35 or more, that is where at least two out of the five panel members considered it strongly met the selection criteria, would move on to the next stage of the assessment process.

4.21 A list of the 37 applications that scored 35 points or more was produced for the panel to rank individually (from one to 37). These rankings were treated as scores; that is one point if ranked first, 20 points if ranked twentieth and so on. The lowest score represented the most meritorious application. The secretariat then tallied the scores.⁷² However, the scores and order of merit it produced were not used during the remainder of the assessment process. In this respect, in January 2012 Regional Australia advised ANAO that the ranking of the 37 applications that achieved a score of 35 or more from the first

⁷¹ The department had not provided the application summaries for six of the 100 applications to the panel prior to the meeting. Therefore, assessment of these six was held over until the following day (9 August 2011) to allow members time to consider the summaries.

⁷² Regional Australia did not keep a copy of the scores as provided to them by panel members. However, the department was able to provide ANAO with a spreadsheet it had produced of the individual and consolidated scores.

tranche was an exercise to demonstrate the robustness of the assessment framework.⁷³

Initial assessment of six of the first tranche applications

4.22 The summaries for the six remaining applications in the first tranche were categorised by the panel the following day. Three of the applications were categorised as NRF and so did not progress further in the assessment process. However, due to an administrative error on the part of Regional Australia, these three applications subsequently appeared in the order of merit as being suitable for funding. See further at paragraphs 4.31 to 4.32.

4.23 The other three applications were categorised by the panel as SFF. The minutes of the panel meetings recorded that two of these applications were then awarded a score of 25 out of 50. No score was recorded in the minutes for the remaining application categorised as SFF.

Initial assessment of the second tranche of applications

4.24 The panel then focused on the second tranche of 104 eligible applications and categorised each as either NRF or SFF. Once again, the categorisation was determined according to a tally of panel member votes. Again, the panel then discussed each application categorised as NRF and either confirmed it as NRF or changed it to SFF. Consistent with the process used for the first tranche, each application categorised as SFF was awarded a score out of 50.

Ranking and categorisation of applications

4.25 The initial assessment process resulted in 65 eligible applications being categorised as NRF and 139 categorised as SFF. All except one of the 139 applications categorised as SFF was then allocated an overall score against the selection criteria of between 25 and 50. Of these, 64 were allocated a score of 35 or above and moved to the next stage of the assessment process, which involved considering their relative merits.

⁷³ To achieve a score of 35 meant that only two panel members were required to consider the application had 'strongly met' the selection criteria.

4.26 Each panel member individually ranked the applications in order of merit from one to 64, with one being the most meritorious application. The rank was treated as a score, and the rankings put forward by the individual members were used to produce an overall score. Where a panel member could not score an application due to a conflict of interest, the average of the remaining members' scores was applied. The secretariat created a preliminary order of merit list for consideration by the panel, which ranked the 64 applications in order of merit according to their overall score. The overall scores ranged from 17 for the application ranked first to 293.75 for the application ranked 64th.⁷⁴ This data was determined by the ANAO from a review of Regional Australia records, as the minutes for the advisory panel's meetings do not record the overall scores or preliminary order of merit.

4.27 The panel considered the 64 applications on the preliminary order of merit, as well as the 75 applications that been allocated a score against the selection criteria below 35, to determine a final order of merit. During this process, one application that had been allocated the minimum score of 25 out of 50 (and so was not one of the 64 applications ranked) was moved into 22nd place on the order of merit. The only explanation recorded for this change in the minutes was 'taking new information into account'.

4.28 Other adjustments made to the ranking and scoring of applications were not recorded in the minutes. For example, there is no reference in the minutes to the movement of one application⁷⁵ from being ranked first according to the preliminary order of merit, to it being ranked equal 65th in the recommendations to the Minister, or the reasons for this significant change in

⁷⁴ Regional Australia only retained a copy of the rankings provided by the chair of the panel. The ANAO compared these rankings with those used in the department's calculation of the overall scores and found the department had entered two rankings incorrectly. This resulted in an application being ranked 24th instead of 27th, and another application being ranked 27th instead of 38th, as recorded in the chair's rankings. The ANAO also identified duplicate and omitted rankings recorded in respect to other panel members and rankings of '65' and '66' out of a possible 64 being included in the calculations but, as the department did not keep a copy of the other panel members' scores in the form provided to it, the reason for these irregularities cannot be determined.

⁷⁵ Namely, Wagga Wagga City Council's application for the Bomen Intermodal Freight Hub project which sought \$19.8 million in RDAF funding towards an estimated project cost of \$42.4 million. Included in the projects announced for round two RDAF funding was \$14.5 million (the maximum grant available in round two was \$15 million, compared with \$25 million for the first round) for the Wagga Wagga City Council for the \$57.4 million Riverina Intermodal Freight and Logistics Hub.

relative ranking.⁷⁶ Similarly, there is no reference as to how the relative merits of projects were determined in situations where more than one project had been allocated the same score. The minutes did not contain the final agreed order of merit.

Categorisation of eligible applications

4.29 As previously noted, the advisory panel was to categorise each eligible application: Recommended for Funding; Suitable for Funding; or Not Recommended for Funding. The panel was also to rank all proposals within the Recommended for Funding and Suitable for Funding categories in order of merit. The minutes of the panel's meetings do not identify the applications categorised as Recommended for Funding but merely explain that 'All projects ranked to number 26 would be Recommended for Funding'.

4.30 The minutes did not record the methodology used for categorising applications as Suitable for Funding, or the decision to create the sub-categories 'Suitable for Funding – Priority One' and 'Suitable for Funding–Priority Two'. The ANAO determined from analysis of data maintained by Regional Australia that the Suitable for Funding – Priority One category comprised the 39 applications that had been ranked in the preliminary order of merit list from 26 to 64.

4.31 In relation to the 78 applications categorised as Suitable for Funding—Priority Two, the panel ranked applications collectively into three bands according to merit. From an analysis of Regional Australia data, it can be determined that those collectively ranked:

- 'first' were two of the applications awarded an aggregate score of 32.5 out of 50 and one of the applications awarded an aggregate score of 50 out of 50⁷⁷;
- 'second' were the 34 applications awarded a score of 30; and
- 'third' were one application given a score of 32.5, 36 applications given a score of 25⁷⁸, one application that had been assessed as SFF but was

⁷⁶ The chair's letter to the Minister outlining the panel's funding recommendations addressed this matter. See further at footnote 69.

⁷⁷ This application had been ranked first on the preliminary order of merit list.

⁷⁸ One other application had also been awarded an aggregate score of 25 out of 50, however it was categorised as Recommended for Funding.

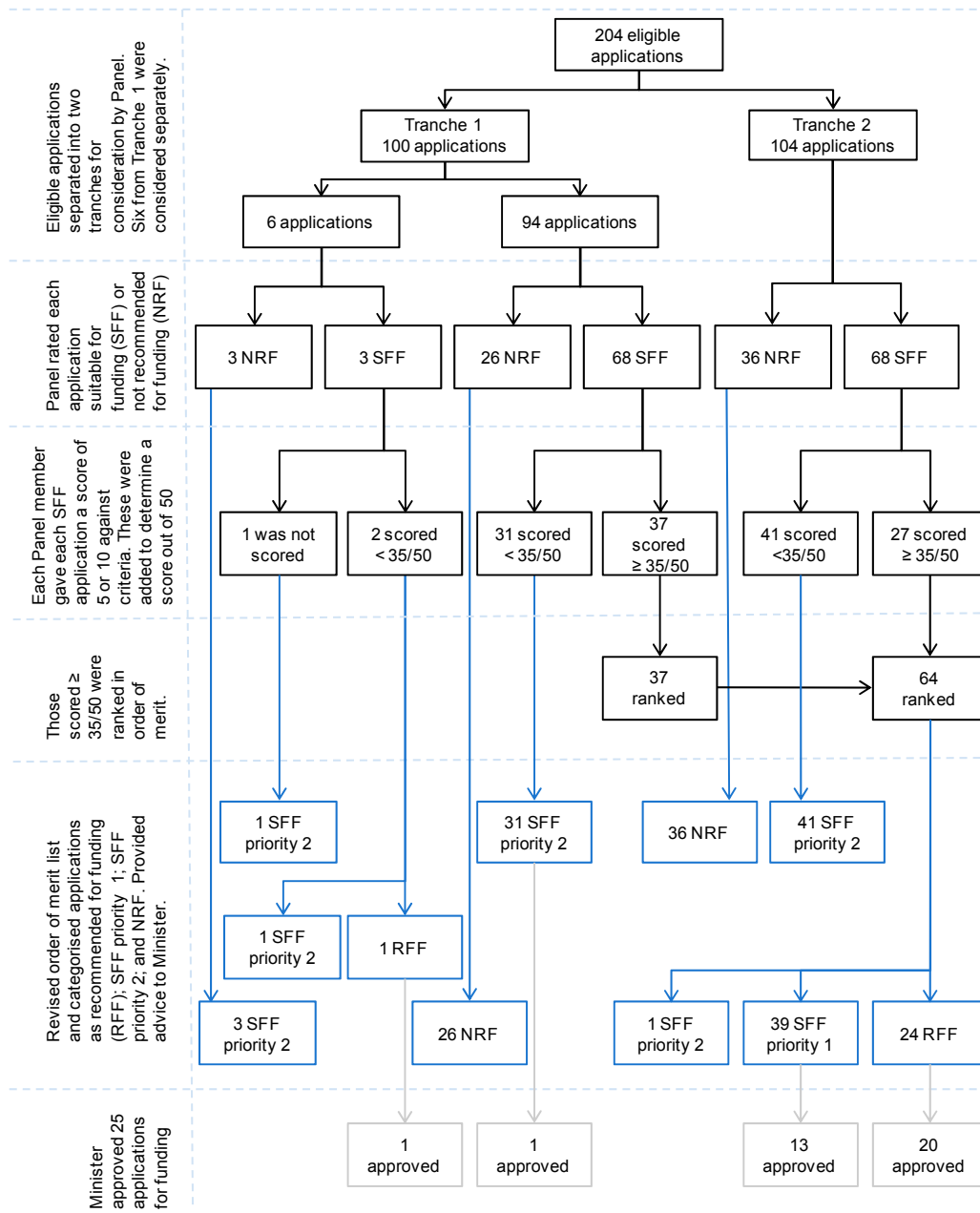
not allocated a score out of 50, and three applications that had been assessed as NRF during the initial assessment process.

4.32 The 62 applications categorised as Not Recommended for Funding were not individually ranked or scored. All 62 applications had been categorised as NRF during the first stage of the assessment process. A further three applications had also been categorised as NRF by the panel. However, due to an administrative error by Regional Australia, they were presented to the Minister as being Suitable for Funding—Priority Two.

4.33 A flow chart of the assessment and approval of eligible applications is provided at Figure 4.1.

Figure 4.1

Assessment, categorisation and approval of eligible applications



Source: ANAO analysis of Regional Australia data.

Recorded panel adjustments to initial merit assessments

4.34 As illustrated by Table 4.1, the records of the advisory panel meetings indicated that the panel, in large part, agreed with Regional Australia’s preliminary merit assessment. Specifically, there were relatively few instances (less than four per cent of ratings) where the records of the panel meetings indicated that the panel downgraded the assessment (usually from Developed to Poorly Developed, and very occasionally from Well Developed to Developed), and only one instance where the panel records indicated that an application should have been allocated a higher rating against one criterion.

Table 4.1

Assessment criteria: departmental preliminary merit assessment and final recorded advisory panel assessment

Criterion	Poorly Developed		Developed		Well Developed	
	Department	Panel	Department	Panel	Department	Panel
1	83	90	102	94	19	20
2A	38	51	72	60	35	34
2B	26	36	100	91	73	72
3	51	57	104	98	49	49
4	66	70	89	86	49	48
5	11	12	47	46	29	29
Total	275	316	514	475	254	252

Source: ANAO analysis of Regional Australia data.

4.35 There were no instances where the records of the panel meetings indicated that Regional Australia did not agree with the change made by the panel to its preliminary assessment. Similarly, the department’s briefing to the Minister did not identify any instances where the department considered its preliminary assessment should be preferred over the view reached by the panel. However, the summary of each eligible application provided to the Minister when he was briefed on the panel’s funding recommendations reflected the department’s initial merit assessment ratings rather than the final

assessment arrived at by the panel. The briefing did not draw this to the Minister's attention.⁷⁹

4.36 The available evidence suggests that providing the Minister with the results of Regional Australia's initial merit assessment rating for certain projects rather than the panel's assessment rating did not impact on the identity of the applications approved for funding. Specifically, none of the 35 applications approved for funding had been downgraded by the panel against any of the assessment criteria. However, for one of the recommended projects that was not approved for funding, the panel had increased the assessment against Criterion 1 from Developed to Well Developed, yet this amendment was not reflected in the advice to the Minister.

Correlation between assessment against selection criteria and final ranking on order of merit list

4.37 The panel was to consider the relative merits of projects based on the information provided by Regional Australia and the published assessment criteria. In the absence of additional explanation, it would be expected that there would be a reasonably strong correlation between an application's position on the final order of merit list and the outcome of the assessment of that application against the published criteria. Such a correlation existed for the applications categorised as Not Recommended for Funding. Specifically, these 62 applications had all been rated as Poorly Developed against at least one assessment criterion, and 80 per cent had been rated as Poorly Developed against two or more assessment criteria.

4.38 However, a similar correlation did not exist between the documented assessment of applications against the published criteria and the applications categorised as either Recommended for Funding or Suitable for Funding. Nor did such a correlation exist between these assessments and the ranking of applications within each of these two categories. Appendix 2 to this report illustrates the inconsistent relationships that existed between the documented assessment against the published criteria and the panel's ranking in respect to the 25 applications categorised as Recommended for Funding.

⁷⁹ Rather, the briefing referred to these summaries in the same paragraph that advised the Minister of the panel's categorisation.

Panel meeting arrangements

Conflicts of interest

4.39 An important issue to be considered in the establishment of advisory panels is the potential for actual or perceived conflicts of interest to arise, which can be damaging to government, the agency and the granting activity. A conflict of interest could arise where a panel member has, or could be perceived as having, a direct or indirect interest that might prejudice, or be seen to prejudice, their partiality in the selection of projects or activities for funding.⁸⁰

4.40 In this respect, the CGGs advise that agencies should put in place appropriate mechanisms for identifying and managing potential conflicts of interest.⁸¹ Depending upon the nature of the program, relevant measures may include:

- ensuring that grant program guidelines clearly outline what constitutes potential conflicts of interest (and the circumstances in which they are relevant) in relation to the respective roles undertaken by decision-makers, officials and others involved in grant administration (including advisory panel members); and
- establishing clear procedures for:
 - the declaration of actual, perceived or potential conflicts of interest; and
 - managing such conflicts, including clearly identifying who will be responsible for ensuring they are dealt with appropriately.⁸²

4.41 The documented operating arrangements for the panel addressed conflicts of interest, including identifying the circumstances in which a real, potential or apparent conflict of interest would be considered to arise. The documented operating arrangements also required that the panel's meeting

⁸⁰ ANAO Better Practice Guide, op. cit., p. 31.

⁸¹ Commonwealth Grant Guidelines, op. cit., p. 28.

⁸² ANAO Better Practice Guide, op. cit., p. 31. In some circumstances, it may also be prudent for the administering agency to implement a register of private interests, and protocols for the register's operation.

minutes record the nature of any identified conflict of interest and how it was managed. Management options were that the member:

- could be involved in discussions and decisions relating to the matter where the conflict was considered by the panel to not be significant;
- may be allowed to be involved in discussions on the matter, but not be involved in making a decision in relation to the matter;
- could be excluded from participation in any discussion or decision-making on the matter; or
- could be required to leave the meeting during deliberations on the matter and the subsequent decision-making.

4.42 In addition, the minutes of the panel's meetings recorded that the panel had received a probity briefing, and that each member had completed a probity protocol.

4.43 Four of the five panel members declared potential conflicts of interest, with one or more panel members declaring a potential conflict of interest in respect to 41 of the 204 (20 per cent) eligible applications provided to the panel for its consideration.

4.44 The panel agreed at the beginning of its deliberations that members could not score an application where they had a material conflict of interest but could participate in the related discussions. Where a panel member could not score a particular application, the method for accounting for that missing score was not determined up front. On two occasions during the deliberations, probity advice on this issue was sought and it was decided that the score for a member with a conflict of interest would be replaced by the average of the other panel members' scores.

4.45 The total scores of five applications that required the use of this methodology were incorrectly recorded because the average score was miscalculated by Regional Australia. ANAO analysis is that the miscalculated scores did not impact on the overall assessment outcome.

Recording panel meeting deliberations and decisions

4.46 In respect to the principle of governance and accountability, the CGGs advise agencies that:

Public accountability is dependent on the proper maintenance and availability of relevant documentation. Record keeping is therefore a key component of

good corporate governance and accountability. Good record keeping assists agencies to meet their accountability obligations, demonstrate compliance with the CGGs and the financial management framework, and demonstrate that due process has been followed in actions and decisions.⁸³

4.47 In this context, creating and maintaining appropriate records of the panel's meetings was important for accountability reasons, as well as to support the panel's decisions and subsequent recommendations to the Minister. In addition, accurate and comprehensive records of panel deliberations and decisions were necessary when providing feedback to unsuccessful applicants.⁸⁴

4.48 According to the documented Panel Operating Arrangements⁸⁵, the secretariat was to prepare a brief report after each meeting, which detailed the progress against the scope of activities and the outcomes of deliberations. The report was to be distributed for comment, endorsed by panel members and then provided to the Minister. The secretariat was also to prepare and distribute, within seven working days of each meeting closing, draft minutes and a register of significant decisions. The chair of the panel was to endorse these minutes.

Meeting reports

4.49 As noted at paragraph 4.5, the panel met on seven days in August 2011. However, the secretariat did not prepare brief reports after each meeting. Accordingly, no such reports were provided to the panel chair for his endorsement, or provided to the Minister.

Meeting minutes

4.50 It was agreed on the first day of panel deliberations that only the decisions would be recorded in the minutes, as opposed to the panel discussions leading up to those decisions.

4.51 For some applications there was not a clear relationship between the documented assessment of applications against the selection criteria and the

⁸³ Commonwealth Grant Guidelines, op. cit., p. 25.

⁸⁴ See further at paragraphs 6.21 and 6.22.

⁸⁵ The program guidelines had stated that the operating procedures for the panel would be included as a schedule to the guidelines. However, the operating procedures did not proceed past a final draft of May 2011, and were not published during the first funding round.

order of merit determined by the panel deliberations. In these circumstances, not recording in the minutes the reasons for the panel's assessment decisions has an adverse impact on the quality of the assessment records. It also does not assist stakeholders to have a sound understanding of, and confidence in, the process by which the panel arrived at its funding recommendations. Draft meeting minutes were developed, involving a single document covering the seven days over which the panel met. However, the minutes were not completed and endorsed in a timely manner. In particular, the minutes were not finalised before the panel wrote to the Minister on 1 September 2011 providing its recommendations in respect to the first RDAF funding round.

4.52 In December 2011, ANAO drew to Regional Australia's attention that the draft minutes remained incomplete⁸⁶ and had not received the panel's endorsement. At this time, some three months had elapsed since the panel had finalised its recommendations to the Minister, and funding decisions had been made. This issue was again raised by ANAO in March 2012 during a presentation to the panel outlining the early findings of this audit as input to preparations for the assessment of applications to the second RDAF funding round. The minutes of the panel's round one deliberations were finalised in April 2012⁸⁷, more than seven months after the funding recommendations for the first round were finalised and provided to the Minister, and more than eight months after the panel had met.

4.53 In July 2012, Regional Australia advised ANAO that:

The department has noted the ANAO's comments about recording the detail of discussion and timeliness of producing minutes. Minutes for round two were agreed by the chair in mid-May 2012 and the members of the panel in late May. They were prepared according to the format adopted in round one. The department will, however, reflect ANAO feedback on content and reasons for decisions in the preparation of minutes or other documents for subsequent rounds of the program.

⁸⁶ For example, there were instances of the draft minutes having question marks or blank spaces in place of an application's score.

⁸⁷ On 2 April 2012, the chair of the panel advised Regional Australia that he had no further changes to the draft minutes and asked the department to provide them to all other panel members for comments and sign-off by 14 April 2012. No comments were received from the other panel members and, accordingly, on 17 April 2012 the minutes were accepted as finalised.

Decision slips

4.54 A ‘decision slip’ was produced for each application and was signed by the chair on behalf of the panel. Each decision slip contained basic details identifying the application, and captured the following elements of the panel’s decision:

- whether the panel recommended a different amount of funding than had been requested by the applicant and, if so, the amount recommended;
- whether the panel recommended a change to the scope of the activity/project that had been proposed by the applicant and, if so, the details of the change recommended;
- whether the panel categorised the application as Recommended for Funding, Suitable for Funding or Not Recommended for Funding; and
- any additional panel comments.

4.55 The decision slips were used as the basis for feedback to applicants (discussed in chapter 6).

Conclusions

4.56 The role of the advisory panel was to consider the relative merits of projects based on its assessment against the published assessment criteria so as to provide funding recommendations to the Minister.

4.57 Regional Australia provided the panel with a range of documentation and other support to inform the merit assessment process. The documentation included an initial assessment by the department of each eligible application in terms of the published assessment criteria, as well as the results of the risk assessment and summary information on each application extracted from the material submitted by applicants. Generally, the material provided to the panel provided a sound basis for it to make informed judgments about the competing merits of each eligible application.

4.58 The panel brought external expertise to the assessment process and outcomes, using the initial assessment of the merits of the 204 applications prepared by Regional Australia as a starting point. The panel’s assessment proceeded in the following three stages:

- separating the eligible applications into two categories—those that did not merit further consideration (categorised as Not Recommended for Funding (NRF)) and those that were suitable candidates for possible funding (categorised as Suitable for Funding (SFF));
- adopting a scoring approach to identify the most meritorious of the SFF applications for further consideration; and
- ranking the 64 applications that had been allocated the highest scores to produce a preliminary order of merit.

4.59 In the absence of additional explanation, it would be expected that there would be a reasonably strong correlation between an application’s position on the final order of merit and the outcome of the assessment of that application against the published criteria. However, there was not a clear and consistent correlation between an application’s position on the panel’s final order of merit list and the documented assessment of each application against the selection criteria.⁸⁸ As a result, some applications assessed as meeting to a high standard most or all of the published criteria were categorised and ranked lower than some other applications where the documented assessment indicated that they were less meritorious in terms of the published criteria.

4.60 Furthermore, Regional Australia’s initial assessments of each eligible application against the published criteria were not updated to reflect instances where the panel reached a different view to the department’s initial assessment.⁸⁹ The records of the panel’s meetings provide some insight into when such differences arose, but the material ultimately provided to the Minister in respect to the assessment of each eligible application against the published criteria reflected the department’s initial assessment rather than the panel’s concluded view.

⁸⁸ There was a high correlation in relation to those applications categorised as Not Recommended for Funding. However, a similar correlation did not exist between the documented assessment of applications against the published criteria and the applications categorised as either Recommended for Funding or Suitable for Funding. Nor did such a correlation exist between these assessments and the ranking of applications within each of these two categories.

⁸⁹ In relation to the applications that were ranked within the Recommended for Funding and Suitable for Funding—Priority One categories, Regional Australia’s records indicate that the panel reached a different view to the department in only one instance. This was Lake Macquarie City Council’s application for the Lake Macquarie Transport Interchange (LMTI) at Glendale project. This project was not approved for funding by the Minister under the first round. However, the project was approved for funding under the second round of the RDAF.

Recommendation No.3

4.61 ANAO recommends that, consistent with the key principles for grants administration outlined in the Commonwealth Grant Guidelines, the Department of Regional Australia, Local Government, Arts and Sport improve the documentation provided to the Minister in respect to the assessment of individual eligible applications against the published criteria to promote a clear alignment between these assessments and the order of merit for funding recommendations.

4.62 Regional Australia response: *Agreed.*

The Department of Regional Australia, Local Government, Arts and Sport's continuous improvement process will facilitate the review and enhancement of documentation provided to the Minister to ensure that the outcomes of the assessment align with the order of merit for funding recommendations.

4.63 More broadly, there was an extensive delay in the minutes from August 2011 being finalised and approved by the panel (this did not occur until April 2012, long after funding recommendations had been made to the Minister) and the minutes themselves lack sufficient detail to provide evidence of the panel's assessment of each application against the merit criteria and the related categorisation and ranking of competing applications.⁹⁰ Regional Australia has advised ANAO that the minutes for the second funding round were finalised in a timely manner and that the content of the minutes for forthcoming rounds will reflect ANAO feedback, including recording the reasons for assessment decisions.

⁹⁰ The stage three scores were not recorded in the meeting minutes even though they provided a key input to the panel's final categorisation and ranking of eligible applications. Similarly, adjustments made to the ranking and scoring of applications (some of which were significant) and the related reasons for these adjustments were not recorded in the meeting minutes. The meeting minutes also did not contain the final order of merit nor explain the process for categorising applications as Suitable for Funding—Priority One and Suitable for Funding—Priority Two.

5. Advice to the Minister and Funding Decisions

This chapter examines the ranking of eligible applications together with the advice provided to the Minister for Regional Australia as to which applications should be approved for funding, and the funding decisions that were then taken.

Background

5.1 The enhanced grants administration framework has a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants.⁹¹ Key underpinnings of that framework are that Ministers:

- not approve a proposed grant without first receiving agency advice on its merits relative to the relevant program's guidelines;
- record the basis of each approval, in addition to the terms of the approval⁹²; and
- report to the Finance Minister all instances where they approve grants that the relevant agency recommended be rejected.

5.2 These requirements, together with other related enhancements to the grants administration framework, do not affect a Minister's right to decide on the awarding of grants. Rather, they provide for an improved decision-making framework such that, where Ministers elect to assume a decision-making role in relation to the award of grants, they are well-informed of the assessment of the merits of grant applications and suitably briefed on any other relevant

⁹¹ This framework was progressively introduced between December 2007 and July 2009, culminating in Commonwealth Grant Guidelines (CGGs) taking effect from 1 July 2009.

⁹² The principal obligation applying to the approval of all spending proposals is set out in FMA Regulation 9, which requires an approver to make reasonable inquiries in order to be satisfied that a proposal would be a proper use of Commonwealth resources and would not be inconsistent with the policies of the Commonwealth. For grant spending proposals, the relevant policies include the CGGs and the specific guidelines established for the relevant program. Approvers are required to record the basis on which they were satisfied that a proposed grant meets the requirements of FMA Regulation 9. This is in addition to the requirement applying to the approval of all spending proposals, which is that the approver records the terms of the approval in writing.

considerations. The requirements also seek to promote transparency of the reasons for decisions.

5.3 The importance of the administering agency providing the Ministerial decision-maker with advice as to which particular grant applications it recommends should be approved within the funding available under a given grant program was outlined in two earlier audit reports relevant to the administration of grant programs by Regional Australia.⁹³ In response to the first of those audits, Regional Australia indicated to ANAO that procedures would be implemented to provide a clear agency recommendation to the Minister concerning whether or not funding should be approved in respect to each application to future competitive, merit-based grant programs the department administered.⁹⁴

5.4 In this context, in two recent reports, the Joint Committee of Public Accounts and Audit (JCPAA) has reiterated the importance of agencies providing advice to Ministers on the merits of proposed grants before any funding decisions are taken. The first such report was in relation to the Strategic Projects Component of the RLCIP.⁹⁵ The second JCPAA report related to the committee's inquiry into a cross-portfolio audit of the administration of grant reporting obligations, wherein the committee concluded that:

From a public administration standpoint, the Committee was concerned to hear that Ministerial briefs in relation to funding for grant proposals were, in many cases, inadequate or incomplete. It is the role of agencies to provide full and considered briefs to Ministers, and to provide 'frank and fearless' advice to enable Ministers to make decisions with a clear understanding of all competing factors.

Further, that briefs were provided to Ministers without a clear recommendation fails one of the basic requirements of grant administration.

⁹³ ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Communities Infrastructure Program*, Canberra, 27 July 2010 and ANAO Audit Report No.27 2011–12, *Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund*, Canberra, 20 March 2012.

⁹⁴ ANAO Audit Report No.3 2010–11, *ibid.*, p. 22.

⁹⁵ Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11*, Canberra, July 2011, p. viii.

The Committee does not speculate as to the reasons why this has occurred, but will be interested to see if this improves over time.⁹⁶

5.5 Against this background, the ANAO examined the:

- advice provided to the Minister for Regional Australia as to which applications should be approved for funding, and the funding decisions that were then taken; and
- recording and reporting requirements that apply to grants decision making.

Panel advice to Minister on assessment outcomes

5.6 It is relatively common practice for expert or advisory panels to be used to provide advice and/or recommendations to a grant program decision-maker in respect to which applications should be funded.⁹⁷ In this respect, where the advice provided by a panel directly informs a decision about expenditure, panel members are agency staff for the purposes of the CGGs.⁹⁸ Importantly, this means that the advice and recommendations received from the panel are able to be relied upon by a Ministerial decision-maker in meeting his or her obligation (under the CGGs) to receive agency advice on the merits of each proposed grant before approving grants under the relevant program.

5.7 Against this background, on 1 September 2011 the chair of the panel wrote to the Minister informing him of the outcomes of the panel's assessment of the 204 applications to the first round of the RDAF that had been assessed as eligible by Regional Australia. The letter provided a summary of the process employed by the panel in finalising its advice. In addition, and consistent with the program guidelines, the letter and related attachments had categorised the 204 applications considered by the panel as either:

⁹⁶ Joint Committee of Public Accounts and Audit, *Report 430: Review of Auditor-General's Reports Nos 47 (2010–11) to 9 (2011–12) and Report Nos. 10 to 23 (2011–12)*, Canberra, May 2012, p. 55.

⁹⁷ ANAO Better Practice Guide, op. cit., p.30.

⁹⁸ This is because the provision of such advice is the performance of a 'financial task' within the meaning of FMA Regulation 3. Persons performing financial tasks are officials under the FMA Act and are therefore agency staff for the purposes of the CGGs. On the other hand, where advice provided by a panel is general and unrelated to any specific applicant, activity or project, committee members are unlikely to be considered agency staff and will not, therefore, be subject to the CGGs.

- Recommended for Funding: 25 projects, seeking a total of \$134.98 million, which the panel had individually ranked in order of merit;
- Suitable for Funding⁹⁹, comprising:
 - 39 projects seeking a total of \$135.4 million that were identified collectively as Priority One and individually ranked in order of merit; and
 - 78 projects seeking a total of \$291.5 million that were identified collectively as Priority Two. These applications were grouped in three bands (three applications were each ranked '1'; 34 applications were each ranked '2'; and 41 applications were each ranked '3'); or
- Not Recommended for Funding: (62 projects seeking a total of \$265.5 million).

5.8 The letter to the Minister from the panel chair included a clear funding recommendation. Specifically, the letter stated that the panel recommended 25 projects be funded, at a cost of \$134.98 million. These were the projects identified in the Recommended for Funding category.¹⁰⁰

Departmental briefing

5.9 The panel chair's letter was attached to a departmental briefing provided to the Minister on 2 September 2011. In that briefing, Regional

⁹⁹ In the 2 September 2011 Ministerial briefing that provided the Minister with the panel letter, Regional Australia advised the Minister that: 'The panel has further grouped applications in the Suitable for Funding projects into two groups to better reflect priorities, readiness for investment and strength of the case presented. Projects rated as Suitable for Funding Priority 1 were considered as appropriate for funding. Projects in the Priority 2 group were considered to be good projects, however not quite ready for funding, for example partnership funding is not in place or development approvals have not been obtained.'

¹⁰⁰ The status of these 25 projects as representing all of the projects that the panel recommended that the Minister approve was reflected in the November 2011 response provided by Regional Australia to a question taken on notice during the October 2011 Supplementary Budget Estimates hearings. The department was asked: 'Can you provide us with the final list of projects which were recommended to the Minister by the independent advisory panel?' In response, the Senate Finance and Public Administration Legislation Committee was provided with details of the 25 projects in the Recommended for Funding category. Source: Senate Finance and Public Administration Legislation Committee, Answers to Questions on Notice, Prime Minister and Cabinet Portfolio, Department of the Prime Minister and Cabinet, Supplementary Budget Estimates 17, 20 October 2011, Question 1.

Australia advised its Minister that, within the maximum funding of \$150 million that was available under the first funding round, the Minister was able to:

accommodate all of the Panel's recommendations¹⁰¹ as well as draw additional projects from the 'Suitable for Funding' list.

5.10 Regional Australia did not advise the Minister of the basis on which it had determined that such a course would be open to the Minister, having regard to the selection process set out in the program guidelines.¹⁰² Nor did the department identify the basis on which it was proposing that the Minister should select the additional projects from within the Suitable for Funding category (which comprised two distinct groupings). Such an approach does not sit comfortably with the department's previous agreement to provide a clear agency recommendation to Ministerial decision-makers (see paragraph 5.3).

5.11 Further, the panel had recommended to the Minister that Regional Australia negotiate with three applicants that had sought more than \$10 million in funding to reduce the Commonwealth contribution where appropriate and possible. The panel estimated that this would reduce the funding required for the recommended 25 projects from \$134.98 million to \$126.18 million. The department advised the Minister that it supported this proposal and stated that 'If savings are achieved you will reconsider the list of suitable projects for funding'. In addition, the department's advice to the Minister was inconsistent with the recommendations of the panel, which did not support the use of any 'savings' to fund additional applications to the first round.¹⁰³

5.12 The departmental briefing indicated support for the panel's conclusions and recommendations, but did not explicitly either endorse or disagree with the panel's recommendation that the nominated 25 applications be approved

¹⁰¹ In this respect, the briefing also stated that: 'The panel recommends that 25 projects be funded, at a cost of up to \$135 million, from the 204 eligible applications it received.'

¹⁰² The program guidelines for the first round of the RDAF outlined that any projects categorised as Suitable for Funding would not be recommended for approval by the panel, but could be re-submitted for consideration at subsequent meetings of the panel.

¹⁰³ In this respect, the finalised minutes of the panel's meetings record that 'savings from the reduced grants would not be used to fund additional projects'. The panel's approach was consistent with the program guidelines.

for \$134.98 million in RDAF funding.¹⁰⁴ Nevertheless, the terms of the departmental covering brief indicated that the panel recommendations represented agency advice for the purpose of the grants administration framework. Specifically, the departmental briefing advised the Minister that:

Your agreement to approve funding for the projects that are Recommended for Funding from the RDAF, and up to the value of \$150,000,000, constitutes approval under Regulation 9 of the FMA. Allocation of funding over this amount will require a new Regulation 9 approval. Projects that are supported but not recommended by the Panel must be reported annually to the Minister for Finance.¹⁰⁵

5.13 In addition, the departmental briefing included attachments that provided the Minister with:

- analysis of the 25 recommended projects by state and territory, applicant type (local government or not-for-profit organisations), the size of the recommended grant and the national priority that would be addressed by these projects (using the categories set out in the program guidelines);
- a map of Australia showing the location of the 25 projects recommended by the panel; and
- a list of the 25 projects that had been recommended for approval by the panel, but with revised funding amounts (totalling \$126.18 million compared with the \$134.98 million sought by applicants) that the panel and Regional Australia proposed be negotiated with the relevant applicants.

5.14 A separate table for each of the four categories, with the applications listed in the order of merit assigned by the panel, was also included in the briefing. For each application these tables provided: identifying information

¹⁰⁴ In other situations where ANAO has examined grant selection processes involving a departmental covering brief being used to provide a Minister with the assessment outcomes and funding recommendations from an advisory panel, the departmental briefing has endorsed the panel's recommendations or, where there are differences of view, clearly outlined the areas where the department did not support the panel's advice.

¹⁰⁵ Similar advice was provided in two sections of the briefing. Specifically, elsewhere the Minister had been advised that: 'Note that where your decision to fund a project varies to that proposed by the panel you are required under the CGGs to provide written advice to the Minister for Finance (annually)'.

about the applicant; the project and the project's locality; the proposed amount of RDAF funding; the total project value; and the amount of leveraged funding. Regional Australia also provided copies of the application summaries that it had produced for the panel, which included the independent risk assessments and the department's assessment of eligible applications against the published selection criteria. However, as outlined at paragraphs 4.34 to 4.36, these summaries did not reflect the assessment of applications by the panel. In 30 instances, the panel had reached a different view to Regional Australia as to the extent to which an application met the published criteria, but this information was not provided to the Minister.

Grant funding decision

5.15 On 5 September 2011, the Minister signed the departmental briefing. As noted at paragraph 5.9, in providing the panel's recommendations to the Minister, Regional Australia had suggested that, given the total grant funding being sought by the 25 projects recommended for approval by the panel was less than the maximum funding available under the first round of RDAF, there was scope for the Minister to also approve additional projects from the next category of projects. As is discussed further at paragraph 5.24, the departmental brief also advised the Minister that he should provide written advice to the department recording any projects which were recommended for funding by the panel but which he chose not to support.

5.16 The available funding of \$150 million was sufficient to fund all 25 recommended applications and the seven highest ranked applications in the Suitable for Funding category. However, as summarised in Table 5.1, the Minister:

- approved 21 of the 25 applications recommended by the panel;
- did not approve four of the recommended applications; and
- also recorded his decision to approve funding for 14 other applications, but these were not the 14 highest ranked applications that had been categorised as Suitable for Funding.

Table 5.1**Advisory panel categorisation and ranking of applications, and related Ministerial funding decisions**

Category assigned by advisory panel	Applications in category	Applications approved for funding
Recommended for Funding	25 applications individually ranked seeking \$134.98 million.	21 applications approved for \$99.15 million. Applications ranked 13 th , 14 th , 15 th and 25 th were not approved for funding.
Suitable for Funding—Priority One	39 applications individually ranked seeking \$135.45 million.	13 applications approved for \$40.5 million, being those ranked 3 rd , 4 th , 9 th , 10 th , 11 th , 13 th , 14 th , 15 th , 16 th , 17 th , 19 th , 20 th , and 22 nd .
Suitable for Funding—Priority Two:		
Ranking of 1	3 applications equally ranked seeking \$30.44 million.	No applications approved.
Ranking of 2	34 applications equally ranked seeking \$111.83 million.	No applications approved.
Ranking of 3	41 applications equally ranked seeking \$149.28 million.	One application approved for \$10 million.
Not Recommended for Funding	62 applications unranked seeking \$256.49 million.	No applications approved.
Total	204 eligible applications seeking \$828.46 million	35 applications approved for \$149.65 million

Source: ANAO analysis of Regional Australia data.

5.17 As noted at paragraph 5.13, the departmental briefing to the Minister had included analysis of the 25 recommended projects. In these respects, compared with the 25 applications that had been recommended for approval, the applications approved for funding:

- did not involve significant differences in the distribution of funding by state and territory but did involve a greater number of applications and proportion of funding being awarded to projects located in regional Australia rather than major cities;
- involved a significant increase in the proportion of funding awarded to not-for-profit organisations compared with local government authorities; and

- involved a significantly lower average grant amount (the average value of approved grants was \$4.28 million compared with an average value for the recommended grants of \$5.39 million).

Recording the basis for grant funding decisions

5.18 The primary objective of any grant assessment and decision-making process should be to consistently and transparently select those projects most likely to contribute to the cost-effective achievement of the program's objectives. For competitive grant programs, this involves all eligible, compliant applications being assessed in the same manner against the same criteria, with the outcome of the assessments against the published criteria then being used to rank each application in priority order.¹⁰⁶ In turn, the ranking forms the basis of the recommendations to the decision-maker as to which applications should be approved and which should be rejected.¹⁰⁷

5.19 The provision of advice on the merits of proposed grants (including the basis for selecting between competing proposals where a competitive selection process is used) is important in assisting decision-makers to meet their obligations under the financial framework when they are undertaking the statutory function of approving a proposal to spend public money (under FMA Regulation 9).¹⁰⁸ In particular, as part of the enhanced grants administration framework, FMA Regulation 12 was amended from 1 July 2009 to require approvers of grants to include in the approval record the basis on which he or she was satisfied that the spending proposal met Regulation 9. In this context, guidance from the Department of Finance and Deregulation (Finance), which is reflected in ANAO's Better Practice Guide, is that where decision-makers:

¹⁰⁶ ANAO Better Practice Guide, op. cit., p. 75.

¹⁰⁷ ANAO Audit Report No.21 2011–12, *Administration of Grant Reporting Obligations*, Canberra, 24 January 2012, p.55.

¹⁰⁸ FMA Regulation 9 prohibits an approver from approving a spending proposal unless satisfied, after undertaking reasonable inquiries, that giving effect to the proposal would make proper use of Commonwealth resources that is not inconsistent with the policies of the Commonwealth. 'Proper use' is defined as being 'efficient, effective, economical and ethical use' of the Commonwealth resources (see section 44(3) of the FMA Act). For grant spending proposals, the relevant policies with which a proposed grant must be consistent in order to be approved include the CGGs and the specific guidelines established for the relevant program.

- agree with the agency recommendation in respect to a proposed grant (irrespective of whether the recommendation was that it be approved or not approved), they are able to point to the agency assessment against the program guidelines as documenting the basis on which they have concluded whether or not the grant satisfied the requirements of Regulation 9 (as long as they are satisfied that the assessment was conducted with rigour);
- agree with an agency recommendation to approve the grant, but for reasons different from, or additional to, those put forward by the agency as the proposed basis for approval, they will need to document the basis on which they reached a decision to award funding; or
- decide to approve a grant that the agency had, based on its assessment, recommended be rejected or in respect to which the agency did not make a clear recommendation for approval, they will be required to separately document the substantive reasons for the approval (having regard to the relevant program's guidelines).

5.20 It is important to recognise that whilst the framework requires the basis for decisions to award grant funding to be recorded, it does not require a decision-maker to record his or her reasons for not approving a grant that was recommended for approval.¹⁰⁹ Finance has advised ANAO that this is because the FMA Regulations regulate decisions to spend public money, but do not regulate decisions not to spend public money. Nevertheless, the grants administration framework was developed based in part on a recognition that:

Potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines and selection documentation.¹¹⁰

¹⁰⁹ In January 2010, Finance agreed to an ANAO recommendation that it further improve the grants administration framework by, among other things, pursuing opportunities to improve the clarity and utility of the requirements set out in the CGGs and associated guidance to agencies in relation to the recording of reasons in circumstances where agency recommendations are not accepted by Ministers. See further in ANAO Audit Report No.21 2011–12, op. cit., pp. 91-92. In its recent report examining this audit, the JCPAA made three recommendations to Finance concerning improvements to the CGGs. See further in Joint Committee of Public Accounts and Audit, *Report 430: Review of Auditor-General's Reports Nos 47 (2010–11) to 9 (2011–12) and Report Nos. 10 to 23 (2011–12)*, Canberra, May 2012, pp. 54-59.

¹¹⁰ Mr Peter Grant PSM, *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008, p. 56.

5.21 Accordingly, the merit ranking of competing applications provided to a decision-maker should reflect the assessment of each application against the published criteria. In this context, a decision to not approve one or more of the recommended applications and, instead, to award funding to one or more applications that had not been recommended indicates that the decision-maker has reached a different view to the advice he or she received on the relative merits of the competing applications. The grants administration framework addresses such decisions in two respects:

- where the decision-maker is a Minister, an annual report is required to be made to the Finance Minister on all decisions to approve a grant which the agency has recommended be rejected; and
- a requirement to record the basis of each decision to approve a grant proposal. Where projects that were not recommended based on the outcome of the documented assessment process are approved in lieu of one or more that had been recommended for approval, recording the basis for those approvals necessarily involves documenting the basis on which the approver had determined that the not recommended but approved projects had met the published selection criteria to a higher standard than those projects that had been recommended but which were not approved.¹¹¹

5.22 In these respects, and as previously noted, it is important to recognise that decision-makers (including Ministers) are not obliged to accept or agree with the assessments and/or funding recommendations they receive. Neither the obligations identified at paragraph 5.21, or the requirement for Ministers to obtain agency advice on the merits of proposed grants, affect a Minister's right to decide on the awarding of grants.¹¹²

Departmental advice on recording the basis for funding decisions

5.23 In developing its recommendations, the panel was aware that up to \$100 million in funding was available through the first round of RDAF and

¹¹¹ Alternatively, it might be possible for a decision-maker to waive one or more criteria but the CGGs outline that, in the interests of transparency, accountability and equity, grant guidelines should document the circumstances in which the eligibility and assessment criteria set out in grant guidelines may be waived. The RDAF program guidelines did not permit any of the assessment criteria to be waived.

¹¹² Strategic Review of the Administration of Australian Government Grant Programs, op. cit., p. 7.

that, subject to Expenditure Review Committee approval, this was being increased to \$150 million. Based on its consideration of the assessment of each of the 204 applications against the published selection criteria, the panel recommended that 25 projects be awarded funding at a cost of up to \$134.98 million. As noted at paragraph 5.9, in the departmental briefing covering the panel's recommendation, the Minister was advised:

Note that ERC agreed funding of up to \$150 million of projects from Round One and if this is confirmed on Monday 5 September, enables you to accommodate all the Panel's recommendations as well as draw additional projects from the 'Suitable for Funding' list.

5.24 The departmental advice also outlined to the Minister that he would need to provide:

...written advice to the department outlining your decisions on:

- those projects which are recommended for funding by the Panel but which you choose not to support; and
- additional projects which you choose to fund from the pool of eligible applications.

5.25 However, despite the departmental advice being provided to the Minister in the context of a competitive funding round where applications had been ranked on the basis of merit according to an assessment against each relevant criterion, it did not emphasise to the Minister that the approach taken to making funding decisions would need to appropriately reflect this context. In particular, Regional Australia did not highlight to the Minister that, where an application was to be considered in advance of more highly ranked projects, it would be important to record how (in terms of the published assessment criteria) any such applications had been identified as more meritorious than other applications in the same category and, if relevant, applications that had been included in a more highly rated category.

Record of decisions for applications recommended for funding by the advisory panel

5.26 As noted at paragraph 5.16, the Minister approved 21 of the 25 projects recommended for funding.

5.27 For the remaining four projects that the panel had recommended be approved for funding, the Minister recorded individual reasons for not approving the project. The recorded reasons related to the regional distribution

of funding across the program and the regional benefits associated with urban projects but did not relate directly to the published assessment criteria.

Record of decision to approve funding for one project categorised as suitable, but not yet ready for funding

5.28 As indicated in Table 5.1, there were 78 applications that the panel categorised as Suitable for Funding—Priority Two. In its briefing, Regional Australia had advised the Minister that the panel considered applications in this category to be ‘good’ projects that were, however, not yet ready to be funded. These 78 applications were ranked in three bands.

5.29 As also indicated in Table 5.1, one of the applications included in the lowest ranked band (Band 3) was approved for funding, namely the Geelong Football Club’s application for the Skilled Stadium Redevelopment—Stage 3 (Southern Stand). The decision-making records indicate that this application was:

- the only one of the 41 applications included in the lowest ranked band considered for possible funding;
- considered for approval by the Minister in advance of similar consideration being applied to any of the 39 applications included in the Suitable for Funding—Priority One category; and
- considered for funding at the same time as the Minister considered the 25 applications that had been recommended by the panel for approval.

5.30 The Minister recorded that his decision to approve funding for both the new Geelong Library and Heritage Centre (the highest ranked project located in the Geelong region, which the panel had recommended for approval) and stage 3 of the Skilled Stadium redevelopment was:

Based on my knowledge and advice as well as its strong business case and the leveraged funds for both the library and football proposals and further given the distributional impact of both projects.

5.31 However, the reason recorded did not outline how (in terms of the published assessment criteria) the Geelong Football Club application had been identified as more meritorious than the other 40 projects that were ranked

equally, or the 76 projects that were ranked more highly, by the panel in the Suitable for Funding categories, including another project located in the Geelong region.¹¹³ In this context, Appendix 3: sets out how each of the four eligible applications received under the first round of the RDAF for projects located in the Geelong region were assessed against the published selection criteria.

5.32 Consistent with the panel’s assessment that the Geelong Football Club application was not yet ready to be funded, there was a considerable delay with finalisation of the funding agreement for this project. The funding agreement was signed in May 2012.

Record of the decision to approve of 13 applications categorised as appropriate for funding, but not recommended for funding

5.33 After approving 21 of the 25 applications that had been recommended for approval by the advisory panel, and having by this stage also approved funding for the Geelong Football Club application, the Minister then considered the 39 projects in the Suitable for Funding—Priority One category by working through them in order of merit. The Minister approved 13 projects, recorded individual reasons for not approving nine projects, and recorded the reason ‘funds exhausted’ in reference to the remaining 17 projects.

5.34 In working through the panel’s order of merit under this category, the Minister recorded reasons for not approving certain projects (and, therefore, moving on to consider projects that were ranked further down the list). The documented reasons related to the Minister’s concerns about not funding too many projects in one geographical area (referred to by the Minister as ‘distributional impact’) or insufficient ‘broader regional impact’ for various projects that were in an urban, inner urban or peri urban location. Both the departmental briefing and the panel chair’s funding recommendation letter had drawn attention to the relevance of these issues to the decision-making process. As indicated above, the approach taken by the Minister had regard to this advice.

¹¹³ This higher ranked application was not approved for funding, with the Minister’s record of his decision indicating that this was because two other projects located in Geelong had already been approved for funding.

5.35 However, it is also important for the documented rationale for decisions to select certain projects for approval in preference to other projects (particularly those that were more highly-ranked as a result of the documented assessment process) to be framed within the context of the published selection criteria that had been established for the relevant program. This is because the CCGs issued by the Finance Minister outline that the program guidelines are a relevant policy of the Commonwealth that must be considered in the context of approving proposed grants.¹¹⁴

5.36 Nevertheless, there was not a strong and consistent correlation between the projects approved for funding and the documented assessment of applications against the published assessment criteria. Of particular note in this respect was that the 13 applications that were approved from within the ‘Suitable for Funding—Priority One’ list (but not recommended for funding) included five projects where the information provided by Regional Australia to the Minister had outlined significant shortcomings in the application when assessed against the published criteria, whereas other applications that were not approved had been assessed as better meeting the published selection criteria

5.37 The approach taken to recording the basis for decisions to approve these projects did not outline how the shortcomings that had been identified by Regional Australia had been addressed or, alternatively, the basis on which the Minister reached a different view. In particular, the records of the relevant funding decisions did not indicate the basis on which the Minister was satisfied that the relevant criteria had been met to a sufficiently high standard in order to support the award of funding. Nor did the decision record identify how it was decided, on the basis of the published assessment criteria, that these applications were more meritorious when compared with more highly rated (and ranked) applications in both the Recommended for Funding and Suitable for Funding categories, which were not approved.¹¹⁵

¹¹⁴ Specifically, the FMA regulations require that an approver make reasonable inquiries in order to be satisfied that a spending proposal (including a grant) would be a proper use of Commonwealth resources and would not be inconsistent with the policies of the Commonwealth.

¹¹⁵ For example, compared with the five projects included in the Suitable for Funding—Priority One applications that were approved notwithstanding that they had been assessed as Poorly Developed against at least one criterion, there were seven applications in that category that had not been assessed as Poorly Developed against any criteria and were also considered by the Minister, but which were not approved for funding.

5.38 In addition, one application that had sought \$4.275 million in RDAF funding was approved for a reduced amount of \$3.5 million, but the reason for not approving full funding was not recorded.

Reporting to the Finance Minister

5.39 Since January 2009, Ministers have been required to report to the Finance Minister:

- each instance in which they approve a grant in their own electorate (this applies only to Ministers that are a Member of the House of Representatives). The report is to be made as soon as practical after the funding decision is made; and
- on an annual basis, all decisions to approve a particular grant which the agency has recommended be rejected. This reporting is to be provided to the Finance Minister by 31 March each year for the preceding calendar year and is to include a brief statement of the basis of the approval for each grant.¹¹⁶

5.40 None of the 35 approved grants under the first round of RDAF were located within the responsible Minister's electorate of Hotham. Accordingly, no reporting to the Finance Minister was required.

Approval of projects that the panel did not recommend be approved

5.41 ANAO's recent audit of the administration of the various grant reporting obligations observed that, in the first eighteen months (January 2009 to June 2010) in which this obligation had applied, there had been only a very small number of instances reported to the Finance Minister as involving a Minister approving a grant that the relevant agency had 'recommended be rejected'.¹¹⁷ ANAO concluded that:

A key factor in this outcome has been the practice of agency briefings not clearly identifying the grants the agency recommends be approved, and those that it recommends be rejected (including where more applications are

¹¹⁶ The administration of these reporting obligations, up to 30 June 2010, was examined in ANAO Audit Report No.21 2011–12 *Administration of Grant Reporting Obligations*, Canberra, 24 January 2012.

¹¹⁷ ANAO Audit Report No.21 2011–12, *ibid.*, p. 16.

assessed as being meritorious than can be accommodated within the available funding).¹¹⁸

5.42 For the first round of the RDAF, the letter to the Minister from the panel chair clearly identified the 25 projects that the panel was recommending be approved for funding. The panel also clearly identified that it recommended not all of the available funding for the first round be used. Rather, the panel recommended to the Minister that Regional Australia negotiate with three applicants that had sought more than \$10 million in RDAF funding to reduce the Commonwealth contribution where appropriate and possible. The panel estimated that this could reduce the funding required for the recommended 25 projects from \$134.98 million to \$126.18 million. The panel did not propose that any additional projects be funded from within the \$150 million that was available for the first round.

5.43 In this context, the panel chair's letter provided a sound basis for identifying any instances where the Minister exercised his discretion to approve projects that had not been recommended for approval. In this respect, the covering brief prepared by Regional Australia advised the Minister that:

Where your decision to fund a project varies to that proposed by the Panel you are required under the CGGs to provide written advice to the Minister for Finance (annually).¹¹⁹

5.44 Against this background, of the 35 approved applications, 14 had not been included in the list of 25 projects the panel had recommended for funding. However, the Minister's report for calendar year 2011 prepared by his

¹¹⁸ ANAO Audit Report No.21 2011–12, op. cit., pp. 15 and 16. In that audit, ANAO identified that a clear recommendation was not included in one or more briefs provided in relation to 20 per cent (or one in five) of the programs reviewed, across 10 agencies (involving about a third of all briefs provided in respect to the affected programs in the 18 month period examined).

¹¹⁹ This advice was part of the seventh recommendation included in the departmental briefing (of 10 recommendations in total). In addition, the briefing advised the Minister:

- under the heading 'Your Obligations in Making Decisions' that 'Projects that are supported but not recommended by the panel must be reported annually to the Minister for Finance'; and
- in an attachment that provided an overview of the requirements of the grants administration framework, that 'The CGGs require that Ministers report annually all instances where they have approved a grant which the relevant agency has recommended be rejected. The report will be provided by 31 March each year for the preceding calendar year. The department will manage this requirement on your behalf.'

department and provided to the Finance Minister in February 2012 stated as follows:

During the 2011 calendar year, I did not approve any grants that my department recommended be rejected.

5.45 In July 2012, Regional Australia advised ANAO that it has prepared a brief to the Minister, and draft correspondence from the Minister reporting these 14 decisions to the Finance Minister.

Conclusions

5.46 The advisory panel provided the Minister for Regional Australia with a clear funding recommendation for his consideration. Specifically, it recommended that the 25 projects in the Recommended for Funding category be approved at a cost of up to \$134.98 million. It further recommended to the Minister that Regional Australia negotiate with three applicants that had sought more than \$10 million to reduce the Australian Government contribution where possible. The panel estimated that this would reduce the funding needed for the recommended 25 projects from \$134.98 million to \$126.18 million. The panel did not propose that any additional projects be funded with the amount remaining from the \$150 million.

5.47 However, Regional Australia's advice to the Minister differed from that provided by the panel. In particular, the department advised the Minister that the available funding enabled him to accommodate all of the panel's recommendations as well as draw additional projects from the Suitable for Funding list. The department did not advise the Minister of the basis on which it had determined that such a course would be open to him, having regard to the selection process set out in the program guidelines and the conclusion reached by the panel that not all of the available funding for the first round should be awarded. Nor did the department identify the basis on which it was proposing that the Minister should select the additional projects from within the Suitable for Funding category (which comprised two distinct groupings).

5.48 The Minister approved 21 of the 25 recommended projects. In light of Regional Australia's advice, the Minister also approved a further 14 projects that had been more lowly categorised and ranked by the panel, and which the panel had not recommended for approval under the first funding round. Consequently, a feature of the 35 projects approved for funding was that a relatively high proportion (40 per cent) had not been recommended for approval by the panel, with the total amount of RDAF funding approved

(\$149.65 million) being 19 per cent higher than the amount the panel had proposed be awarded.

5.49 Reflecting the different experiences and expertise brought to bear by those responsible for assessing proposed grants and Ministerial decision-makers, the financial framework applying to grants decision-making recognises that different conclusions can legitimately be drawn from any given set of information and evidence, and accordingly it is open to a Minister to reach a decision different from that recommended in an agency's advice. However, in respect to all grant funding decisions, the financial framework also requires that the basis for the decision be recorded. In this context, where the assessment advice provided to the Minister has identified shortcomings against one or more of the published assessment criteria, it is necessary that the recorded basis of the funding decisions outline how the decision-maker arrived at a different view as to the performance of the relevant application against these criteria (and, in the context of a competitive grant program, how that compares to that of competing applications).¹²⁰

5.50 At the same time as approving projects in the Recommended for Funding category, the Minister approved one project from the Suitable for Funding—Priority Two category. The decision-making records indicate that this application from the Geelong Football Club was: the only one of the 41 applications included in the lowest ranked band considered for possible funding; considered for approval by the Minister in advance of similar consideration being applied to any of the 39 applications included in the Suitable for Funding—Priority One category; and considered for funding at the same time as the Minister considered the 25 applications that had been recommended by the panel for approval. In addition, this application had been assessed as less meritorious in terms of the published assessment criteria than another project located in the Geelong region, which the panel had categorised and ranked more highly.

5.51 The Minister recorded that his decision to approve funding for the Geelong Football Club, and the new Geelong Library and Heritage Centre (the

¹²⁰ Alternatively, it might be possible for a decision-maker to waive one or more criteria but the CGGs outline that, in the interests of transparency, accountability and equity, grant guidelines should document the circumstances in which the eligibility and assessment criteria set out in grant guidelines may be waived. The RDAF program guidelines did not permit any of the assessment criteria to be waived.

highest ranked project located in the Geelong region, which the panel had recommended for approval) was 'based on my knowledge and advice as well as its strong business case and the leveraged funds for both the library and football proposals and further given the distributional impact of both projects'. However, the recorded reason did not outline how (in terms of the published assessment criteria) it had been identified as more meritorious than the other 40 projects that were ranked equally, or the 76 projects that were ranked more highly, by the panel in the Suitable for Funding categories.

5.52 The Minister then considered the 39 projects in the Suitable for Funding—Priority One category by working through them in order of merit. The Minister approved 13 projects, recorded individual reasons for not approving nine projects, and recorded the reason 'funds exhausted' in reference to the remaining 17 projects. Reflecting that Regional Australia had not advised the Minister on how such selections should be made, including clearly relating any such decisions to the comparative merits of competing applications in terms of the published assessment criteria, the recorded reasons did not directly relate to the published program criteria.¹²¹ Rather, they focused on the Minister being satisfied with the regional distribution of funding across the program and with the regional benefits associated with urban projects.

5.53 In addition to recording the basis for grant approval decisions, the CCGs require that Ministers provide an annual report to the Finance Minister by 31 March of each year outlining all instances for the preceding calendar year where they had awarded a grant that the agency had recommended be rejected. Regional Australia's advice had outlined that the approval of any projects other than the 25 projects that had been included by the panel in the Recommended for Funding category would require reporting to the Finance Minister. There were 14 such projects. However, the report for the 2011 calendar year prepared by Regional Australia and sent by the Minister to the Finance Minister in February 2012 in relation to the approval of grants that the agency advice had recommended be rejected did not identify any such

¹²¹ In this context, there was not a strong and consistent correlation between the projects approved for funding and the documented assessment of applications against the published assessment criteria. Of particular note in this respect was that the 13 applications that were approved from within the 'Suitable for Funding—Priority One' list (but not recommended for funding) included five projects where the information provided by Regional Australia to the Minister had outlined significant shortcomings in the application when assessed against the published criteria, whereas other applications that were not approved had been assessed as better meeting the published selection criteria.

decisions as having been taken. In July 2012, Regional Australia advised ANAO that it has prepared a brief to the Minister, and draft correspondence from the Minister to the Finance Minister, reporting these 14 decisions.

6. Funding Distribution, Feedback to Applicants and Signing of Funding Agreements

This chapter provides an overview of the outcome of the first RDAF funding round in relation to the distribution of funding, the provision of feedback to applicants and the development and signing of funding agreements with the successful applicants.

Background

6.1 Through the first RDAF funding round, a total of \$149.65 million was awarded to 35 applications. The ANAO examined the distribution of funding, the development and signing of funding agreements¹²² and the provision of feedback to unsuccessful applicants.

Funding provided to regional Australia

6.2 The Government agreed to deliver a stronger governance and accountability framework for regional Australia in its agreement with the Independent Members for New England and Lyne. Accordingly, the 2011–12 Budget Papers included some information on government spending in regional Australia, based on existing systems, definitions and available data.¹²³

6.3 Improvements to the reporting of regional expenditure were reflected in the 2012–13 Budget, through the introduction of a refined spatial reporting framework.¹²⁴ In particular, spatial reporting in the 2012–13 Budget Papers was based on a common classification of regional Australia. In this respect, regional Australia was defined as being all of Australia except for areas classified as major cities under the Australian Bureau of Statistics Australian Standard Geographic Classification Remoteness Structure.

¹²² The audit did not examine Regional Australia's oversight of the delivery of funded projects.

¹²³ Statement by The Honourable Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, *Investing in Regional Australia*, 10 May 2011, pp. 149-150.

¹²⁴ Statement by The Honourable Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, Minister for the Arts, *Stronger Regions, Stronger Nation*, 8 May 2012, p. 226. Spatial reporting is about capturing and reporting Government's expenditure by geographical location.

Funding distribution

6.4 In designing the RDAF program it was decided that eligibility for funding should not be restricted to projects located in, or that benefit, regional Australia. This was reflected in the published program guidelines not excluding from eligibility any applications that related to areas other than regional Australia.¹²⁵ Nevertheless, the program guidelines provided that the panel could consider the distribution of funding in making its recommendations, including by: ‘population by state; each state and territories’ GDP; and the Australian Government’s commitment to support recovery and reconstruction of disaster affected areas in regional Australia’.

6.5 In this context, the letter from the chair of the panel to the Minister outlining the panel’s funding recommendations noted that:

Recognising that eligibility for funding from the RDAF program was not limited to country areas only, there are five projects in the Recommended for Funding list that are urban, as opposed to peri-urban¹²⁶ or regional.¹²⁷

6.6 In addition, the covering brief from Regional Australia advised the Minister that discussions with other departments around the definition of regional Australia for the 2012–13 Budget had indicated that the definition of regional Australia would be likely to exclude capital cities, except for Darwin and Hobart. As noted at paragraph 6.3, the definition adopted was a narrower definition of regional Australia.

6.7 Against this background, Table 6.1 summarises ANAO’s analysis of the spatial distribution of funding for the first RDAF funding round. It illustrates that:

¹²⁵ Since September 2010, under the grants administration framework, graduated approval arrangements have been in place for grant program guidelines, based on agency assessments of the program risk. Guidelines for programs (such as RDAF) assessed as representing a low risk may be approved by the portfolio Minister, unless the Finance Minister asks that they be referred to the Expenditure Review Committee (ERC) of Cabinet for consideration. The guidelines for the first RDAF funding round were referred to the ERC due to sensitivities about the guidelines being drafted in a way that did not restrict funding eligibility to regional Australia. The draft guidelines were approved by ERC.

¹²⁶ That is, projects located on the perimeter of urban areas.

¹²⁷ Of those five projects, three were not approved for funding with the Minister recording that this was because he considered they involved insufficient broader regional benefits or impact. These were the applications in the Recommended for Funding category that were ranked 13th, 14th and 25th.

- there was no difference in the rate at which applications from regional Australia and major cities were assessed as eligible, further emphasising that the program guidelines did not include any eligibility criteria relating to the location of projects;
- in relative terms, the funding recommendations of the panel involved a greater proportion of funding (both in terms of application numbers and the amount of funding recommended for approval) being recommended for projects located in major cities compared with the proportion of eligible applications that related to major cities. In this respect, the panel chair's funding recommendation letter to the Minister suggested that the Minister needed to ensure he was 'comfortable with the geographic spread of projects'; and
- the proportion of projects located in regional Australia approved for funding by the Minister was consistent (both in terms of the number of applications, and the quantum of approved funding) with the number of applications assessed as eligible. Of note in this respect, compared with the panel's recommendations, was that:
 - each of the four applications that the panel had recommended be funded but which the Minister did not approve for funding was located in a major city; and
 - 12 of the 14 applications (86 per cent) that had not been recommended for funding by the panel but which were, nevertheless, approved by the Minister¹²⁸ were located in regional Australia.

¹²⁸ See further at paragraph 5.16.

Table 6.1

Spatial distribution of funding: applications received, assessed as eligible, recommended for funding and approved for funding.

	Regional Australia		Major cities	
	# (%)	\$m (%)	# (%)	\$m (%)
553 applications received	428 (77)	1 413 (69)	125 (23)	642 (31)
204 applications assessed as eligible	149 (73)	559 (68)	55 (27)	259 (32)
25 applications recommended for funding	15 (60)	73 (54)	10 (40)	62 (46)
35 applications approved for funding	27 (77)	111 (74)	8 (23)	38 (26)

Source: ANAO analysis of Regional Australia and Australian Bureau of Statistics data.

6.8 As outlined in Table 6.1, around one-quarter of funded projects were located in major cities rather than regional Australia. However, with one exception, each of the relevant applications was assessed by Regional Australia as being Well Developed against at least one of the assessment criteria that specifically related to benefits to regional Australia.¹²⁹

Electorate distribution

6.9 As previously discussed, since January 2009 Ministers who are Members of the House of Representatives have been required to report to the Finance Minister each instance in which they approve a grant in their own electorate, but none of the 35 approved grants (or, in fact, any of the applications) under the first round of RDAF were located within the responsible Minister’s electorate of Hotham. Accordingly, no reporting to the Finance Minister was required.

6.10 However, as outlined in a recent ANAO performance audit on the grant reporting obligations¹³⁰, where audit reports or public commentary has raised questions about the political distribution of grant funding, the concerns raised have generally related to a wider issue than grants approved by a Minister in his/her own electorate. Specifically, the concern has more often

¹²⁹ These were criteria 2A, 2B and 5, which are described in Table 3.4.

¹³⁰ ANAO Audit Report No.21 2011–12, op. cit., p.91.

been whether the total distribution of approved grants under a particular program has favoured the party in government, rather than just the electorate of the particular Minister who was making the decisions.

6.11 Against this background, RDAF projects were required to specify an electorate in which the project was located at the time of application. However, while the information provided to the panel and, subsequently, the Minister identified the location of each project as well as the relevant RDA committee, the Federal electorate in which the project was located was not provided. In this respect, in July 2012, Regional Australia advised ANAO that:

At no time during the assessment process, panel discussions or in advice to the Minister, was any analysis or discussion about electorates undertaken. The request for advice on electorate was included in the application form for consistency with previous grant application forms, and for use in databases.

6.12 Following the 2010 election, the majority of seats in rural electorates came to be held by one of the Coalition parties, with most metropolitan and provincial seats held by the Australian Labor Party (ALP). In this context, the majority of the 553 applications received were submitted by proponents located in Coalition-held electorates, with such applications also forming the majority of the 204 applications assessed as eligible to be considered for funding.

6.13 As illustrated by Table 6.2, applications located in an electorate held by the ALP were more successful (both in terms of the number of applications approved¹³¹, and the quantum of funding awarded) in being awarded funding than those located in an electorate held by the Coalition parties or Independent Members. In large part, this outcome was a result of eligible applications located in ALP-held electorates being more highly represented in the applications that the panel recommended be approved for funding. In this respect:

- of the four projects the panel recommended be approved for funding but which the Minister did not approve (each of which was located in a

¹³¹ The approval rate for eligible applications located in an ALP-held electorate was 22.2 per cent, more than 54 per cent higher than the approval rate for eligible applications located in a Coalition-held electorate.

major city), three were located in electorates held with a Safe margin¹³² by the ALP and one was located in a Marginal electorate held by the Coalition;

- both of the applications located in major cities that had not been recommended for funding by the panel but which were, nevertheless, approved by the Minister were located in electorates held by the ALP with a Safe margin; and
- of 12 applications located in regional Australia that had not been recommended for funding by the panel but which were, nevertheless, approved by the Minister:
 - seven were located in Coalition-held electorates, five of which were classified by the AEC as Safe, one as Fairly Safe and one as Marginal;
 - four were located in electorates held by the ALP, three of which were classified by the AEC as Marginal and one was classified as Safe; and
 - one was located in an Independent-held seat, classified by the AEC as Safe.

¹³² The Australian Electoral Commission (AEC) categorises the status of a House of Representatives seat based upon the results at the most recent Federal election. Where a winning party receives less than 56 per cent of the vote, the seat is classified as 'marginal', 56–60 per cent is classified as 'fairly safe' and more than 60 per cent is considered 'safe'.
(Source: <<http://results.aec.gov.au/15508/Website/HouseDivisionClassifications-15508-NAT.htm>> [accessed 30 May 2012]).

Table 6.2
Application approvals by political party

Party holding the electorate in which the project was located	Electorates held at time of round		Applications received		Eligible applications		Applications recommended by Advisory Panel		Applications approved by Minister	
	# (%)	# (%)	# (%)	\$m (%)	# (%)	\$m (%)	# (%)	\$m (%)	# (%)	\$m (%)
Australian Labor Party	72 (48%)	175 (32%)	72 (35%)	288.83	13 (52%)	80.09 (59%)	16 (46%)	76.89 (51.4%)	22.2%	
Coalition	73 (49%)	330 (60%)	111 (54%)	449.39	10 (40%)	48.24 (36%)	16 (46%)	58.12 (38.8%)	14.4%	
The Greens	1 (1%)	-	-	-	-	-	-	-	-	-
Independent Member	4 (3%)	48 (9%)	21 (10%)	90.23	2 (8%)	6.64 (5%)	3 (9%)	14.64 (9.8%)	14.3%	
Total	150	553	204	828.45	25	134.98	35	149.65	17.2%	

Source: ANAO analysis of Regional Australia and Australian Electoral Commission data.

Funding announcement and feedback to applicants

6.14 The Minister publicly announced the outcome of the first RDAF funding round on 7 September 2011—two days after approving the funding—providing the details of all 35 successful projects simultaneously within a single media release. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative sources of funding.¹³³ It also has the added advantage of avoiding any perception that the timing of announcements is being used for party-political purposes.¹³⁴

Feedback to applicants

6.15 The provision of feedback to applicants has been emphasised by the Joint Committee of Public Accounts and Audit as an important element of grants administration practice.¹³⁵

6.16 Coinciding with the public announcement of round one projects, the Minister signed letters to the successful applicants on 7 September 2011 advising them of the amount of funding approved and that Regional Australia would be in contact shortly to discuss the funding agreement. Unsuccessful applicants received an email on 7 September 2011 advising that their application had not been successful, and that the department would provide a letter over the coming days containing formal advice and feedback, as well as details of how to obtain verbal feedback.

6.17 Applicants who submitted applications that had been assessed as ineligible for funding were emailed letters providing formal advice and written feedback over the period 14 to 16 September 2011. Regional Australia had prepared nine standard paragraphs describing nine different reasons that

¹³³ In this respect, the simultaneous announcement of all projects approved under the first RDAF funding round represented an improvement from the approach used for the predecessor program, whereby the approved projects under Strategic Projects Component of the RCLIP were publicly announced over the course of the month following the funding decision being made.

¹³⁴ A different approach was taken for round two of RDAF, whereby successful projects were announced on a state-by-state basis. The announcements commenced on 4 June 2012 with the successful Queensland-based projects and continued progressively until mid July 2012.

¹³⁵ Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11*, Canberra, July 2011, p. viii.

an application might be deemed ineligible. Each letter contained the phrase 'reasons for the ineligibility of your application are:' followed by one or more of the nine standard paragraphs. The standard paragraphs selected generally corresponded with the reason/s recorded in other departmental records for the application's ineligibility. The most common discrepancy found by the ANAO was that 11 of the 348 letters (three per cent) did not advise the applicant that the reasons for ineligibility included failing to provide mandatory documentation.

6.18 There were 169 applications that were assessed as eligible for funding but were not approved for funding. In respect of 164 of these (97 per cent), the applicants were emailed letters dated 19 September 2011 providing formal advice that they had not been approved for funding, together with written feedback on their application. The feedback was extracted from the comments made by the panel on the decision slips¹³⁶ and, therefore, was tailored to each application. The letters did not indicate whether the application had been categorised as Suitable for Funding or Recommended for Funding by the panel.

6.19 The remaining four out of the 169 applications were those that had been recommended for funding by the panel but had not been approved for funding by the Minister. The four applicants were emailed letters that had been signed by a more senior departmental official on 30 September 2011. The letters advised that the 'project was highly regarded by the RDAF advisory panel', but did not inform the applicants that the panel had recommended the application be awarded funding. The letters also contained feedback that was consistent with the panel's comments as recorded on the decision slips.

6.20 All of the letters advised unsuccessful applicants that they could receive additional feedback by registering their interest in having a discussion with the department. Feedback was provided via telephone conversations to the 278 of the 434 organisations that submitted applications that were not funded under the first round (64 per cent).

6.21 The provision of feedback to applicants following future RDAF funding rounds could be improved by the departmental officers who provide the

¹³⁶ As discussed in paragraph 4.54, for each eligible application, the advisory panel recorded its overall recommendation and comments on a document referred to as a 'decision slip'.

feedback being better informed about the panel's assessment of each eligible application. This information would be of particular value to applicants, given it is the panel's role to assess, rank and recommend eligible applications. For the first funding round, the departmental officers providing feedback to unsuccessful applicants had access to the outcome of Regional Australia's initial assessment of applications against the selection criteria, but not to the scores awarded by the panel or to the specific comments made by the panel during its deliberations. The departmental officers providing the feedback also had access to the comments recorded by the panel on the decision slips but these comments had already been provided to relevant applicants in their letters of outcome. In addition, the decision slips for unsuccessful applicants did not contain positive feedback or suggestions for improvement, as they recorded the key reasons why the application had not been recommended for funding.

6.22 In this context, there were instances where the handwritten notes taken by departmental officers during the panel assessment meetings indicated that the panel had given specific instructions for Regional Australia to provide detailed feedback in relation to a number of applications. These included requests to provide positive feedback or give advice on particular aspects of an application that could be strengthened should the project be the subject of an application to a later funding round. This detailed feedback was not made available to the departmental officers conducting the verbal feedback sessions, and so was not passed on to the applicants.¹³⁷

Complaints

6.23 A complaints mechanism was also available to applicants and other stakeholders. The complaints management procedures were published on the RDAF page of Regional Australia's website. There were six complaints lodged in relation to the first RDAF funding round. Each was investigated by the department and a response provided.

¹³⁷ For example, the advisory panel made specific suggestions for improvement should one of the applicants apply under a future round. The advisory panel were of the understanding that Regional Australia would provide this feedback to the applicant. However, there is no reference to these suggestions in the letter of outcome or in the department's record of the verbal feedback given.

6.24 Each complaint had been submitted by an applicant disputing the basis for their application being deemed ineligible for funding. Regional Australia's investigations concluded that one of the applications was ineligible for the reasons given by the department, one was ineligible for a different reason, and four of the applications should have been assessed as eligible. No remedy was offered to these four applicants on the basis that the round was competitive and merit-based and had been concluded, and so there was no capacity for applications to be reconsidered and funded. In this respect, had the amount of funding awarded been in line with the panel's recommendation that not all of the \$150 million be awarded (see paragraph 5.11), there would have been capacity for these applications to have been assessed against the merit criteria and considered by the panel as to whether they would have been categorised as Recommended for Funding had they been included in the 204 eligible applications provided to the panel for its consideration.¹³⁸

Feedback from applicants and other stakeholders

6.25 Following the completion of the first funding round, the Minister asked the chair of the panel to review the round and provide advice on potential improvements and refinements. As a result, the chair met with 83 stakeholders, including applicants, representatives from 43 RDA committees, various local government authorities, state and territory governments, peak bodies and not-for-profit organisations. The meetings were held in Melbourne, Adelaide, Perth, Sydney, Brisbane and Canberra. The chair sought suggestions that would enhance the program and make it more user-friendly, clearer and simpler for applicants, and less resource intensive.

6.26 The chair wrote to the Minister on 23 September 2011 providing an overview of the key issues and themes that emerged, as well as his own recommendations on potential improvements that could be made to RDAF.¹³⁹

¹³⁸ By way of comparison, under the National Solar Schools Program administered by the Department of Climate Change and Energy Efficiency, a small proportion of funding available in each competitive round is set aside to cover the cost of any successful appeals. See further in ANAO Audit Report No. 39 2011–12, *Management of the National Solar Schools Program*, Canberra, 7 June 2012.

¹³⁹ According to the letter from the chair, stakeholders appreciated that they were being asked for their input about how to make the RDAF program as effective as it can be in achieving strong regional outcomes. The chair considered that 'there is merit in following a similar process at the end of each round to ensure that the program continues to meet the needs of regional Australia and to harness the best ideas and feedback from those who are directly experienced in the process of applying for funding for the program'.

According to this letter, the overarching messages from stakeholders were the need for:

- a stronger role for RDA committees in the program;
- greater clarity of the objectives and outcomes of the RDAF program;
- a reduction in the compliance burden;
- rounds to be open to applications for longer, to allow applicants and RDA committees more time;
- earlier notification to applicants of their eligibility, particularly their ineligibility;
- clarification of 'region' given stakeholders expressed some confusion about whether proponents in metropolitan centres (particularly capital cities) were eligible for the program;
- clarification of the approach to applications for projects that deliver benefits on a national or state/territory basis;
- encouraging the development of innovative and creative solutions to local issues and priorities;
- Regional Organisations of Councils, commercial arms of local councils (such as water or gas authorities) and universities to be considered eligible organisations; and
- continuation of generalist rounds, though views were mixed with a minority of stakeholders supporting the introduction of themed rounds.

6.27 Stakeholders were also invited to complete a survey form that was available from the Regional Australia website for two weeks from 12 to 23 September 2011. The website advised that 'an overview of comments received from stakeholders will be available from this website, for the information of respondents and potential applicants'. While an overview of the comments received has not been published, an analysis of the responses was undertaken by Regional Australia. In addition, a list of the key points made in the survey responses was included in the letter from the chair to the Minister.

6.28 Regional Australia received 52 responses to the survey. According to Regional Australia's analysis, responses to the survey question 'were the RDAF guidelines easy to understand?' were evenly divided, with 40.5 per cent

answering in the positive and 40.5 per cent in the negative (the remaining 19 per cent did not provide a direct response). The most frequent comments were about clarifying one or more definitions, the need to provide templates and guidance for all mandatory documents, and that too much information with too great a level of detail was required from applicants.

6.29 Regional Australia's analysis concluded that technical difficulties with uploading applications together with attachments were by far the most acutely felt lodgement issue by the applicants. More than half the pool of respondents (54 per cent) responded in the negative to the question 'was the application process easy to understand and complete?' Around 21 per cent of respondents replied in the positive, while the perspective of the remaining 25 per cent of respondents could not be ascertained from the survey response. Similarly, 54 per cent of respondents felt that the application process could be improved. The most frequently raised issues with the application form were: repetitive requests for the same information; poor and often ambiguous wording and errors; as well as unexpected and frustrating word limit in the form's fields.

6.30 A survey question about whether the assessment process was easy to follow attracted the highest proportion of unattributed responses (42 per cent). Positive responses were received from 37 per cent of respondents; with 21 per cent indicating that they did not have a good understanding of the assessment process. In its analysis of the survey responses, Regional Australia noted that the issue of transparency and effectiveness of the assessment process attracted a wide range of suggestions and comments.

Negotiation and signing of funding agreements

6.31 The program guidelines for the first funding round of RDAF advised that successful applicants should enter into a funding agreement within 16 weeks of the project being approved by the Minister. The program guidelines anticipated that projects would be approved by the Minister in July 2011 and accordingly, by extension, all funding agreements would be in place in November 2011. The actual date of approval by the Minister was 5 September 2011, making the target date for having all funding agreements executed 25 December 2011. The 16-week timeframe was achieved for only six

of the 35 projects approved. Table 6.3 provides a breakdown of when the funding agreements were signed.¹⁴⁰

Table 6.3

Period in which funding agreements were signed on behalf of the Commonwealth

Month agreement signed	Number of agreements signed
December 2011	6
January 2012	8
February 2012	12
March 2012	6
April 2012	2
May 2012	1

Source: ANAO analysis of Regional Australia records

Payment arrangements

6.32 Paying a proportion of approved funding in advance upon execution of the funding agreement was a practice that had been commonly adopted by the former Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) across a range of grant programs audited by ANAO. More recently, in the 2010–11 performance audit of the Better Regions Program, ANAO observed a substantially more robust approach had been adopted by Regional Australia, with no instances where a payment was based on signing the funding agreement.¹⁴¹

6.33 The documented internal procedures relating to the funding agreement negotiations for RDAF originally advised officers that they should not structure funding agreements to include upfront payments on execution unless the withholding of funds would compromise the start up of the project. This approach reflected better practice, whereby payments should only be made in

¹⁴⁰ In developing the funding agreements with each successful applicant, Regional Australia had procedures in place to identify which risks identified during the assessment process could be mitigated prior to a funding agreement being signed, and which risks required management through the terms of the funding agreement.

¹⁴¹ ANAO Audit Report No.24 2010–11, *The Design and Administration of the Better Regions Program*, Canberra, 27 January 2011, pp. 103-104.

advance where there is a demonstrated net benefit in doing so.¹⁴² However, the RDAF procedures were changed on 7 November 2011 to introduce a fixed upfront payment on execution of the funding agreement. As a result, for all but one of projects funded under the first round, the funding agreement provided an upfront payment of 15 per cent of the total grant amount irrespective of individual projects' cash flow needs.¹⁴³

6.34 The RDAF funding strategy also involved reserving 10 per cent of the grant value for the final payment to be paid in arrears. Withholding a proportion of the grant value until the recipient has completed and acquitted the project is better practice as it provides an incentive for funding recipients to comply with all obligations set down in the funding agreement.¹⁴⁴ For the remaining 75 per cent of the RDAF grant amounts, the timing and number of payments were determined on a case-by-case basis in negotiation with the recipient, and were subject to the achievement of specified milestones.

Partner contributions

6.35 One of the stated aims of RDAF is to leverage state, Commonwealth, local government and private investments for the long-term benefit of communities. This aim was reflected in the eligibility criteria for the first round requiring co-funding (that is, partner contributions) for all projects, except in extenuating circumstances. It was also reflected in the assessment criteria, whereby criterion one was 'Extent to which the project leverages funding from a variety of sources'. Accordingly, applicants were required to specify the value, nature and source of any partner contributions to the project. They were also required to specify the value of the project.

6.36 As part of the funding agreement negotiations, Regional Australia reviewed the partnership contributions with the successful applicants. At times this led to figures being changed, such as when ineligible partner contributions or calculation errors were identified. It also resulted in figures being updated, given the period of time that had elapsed between the submission of applications and the negotiation of contracts. The outcome was

¹⁴² A discussion of advanced payments can be found in the Better Practice Guide, op. cit., pp.92-93.

¹⁴³ One funding agreement provided for an upfront payment of 10 per cent.

¹⁴⁴ ANAO Better Practice Guide, op. cit., p. 93

that 18 of the 35 funding agreements contained different partnership contributions than had been specified in the original application and, therefore, than had been advised to the advisory panel and to the Minister.

6.37 As part of the funding agreement clearance process, a minute was provided to the RDAF Program Manager that outlined key issues in the drafting and negotiation of the funding agreement. There was no mention made in any of the clearance minutes of there being a difference between the partner contributions as specified in the applications and those specified in the funding agreements. Accordingly, there is no formal record explaining the reason for the differences evident in 18 of the funding agreements. Regional Australia also did not brief the Minister, in his role as decision-maker, on instances where the partnership contributions in the funding agreement were inconsistent with the figures set out in the project approval brief. In the nine instances where the partner funding in the funding agreement is less than that advised to the Minister when he approved funding (under FMA Regulation 9), there has been a breach by the department of FMA Regulation 8.¹⁴⁵

6.38 As the terms of the funding agreement used the value of the partnership contribution to calculate the project value, the revisions to partnership contributions had the flow on effect of changing the estimated project value.

6.39 According to the information published on Regional Australia's website, the combined total value of the 35 successful projects is \$418 million, of which \$149.57 million is funded by RDAF and (by extension) \$268.43 million is contributed by other sources. Based on these figures, for every \$1 of RDAF funding there was \$1.79 from other sources. However, from the figures contained in the signed funding agreements, RDAF funding totalled \$149.2 million and the partner contributions totalled \$247.8 million. Therefore, according to the funding agreements, for every \$1 of RDAF funding there was

¹⁴⁵ FMA Regulation 8 provides that a contract, agreement or other arrangement under which public money is payable or may become payable must not be entered into unless a spending proposal has been approved under FMA Regulation 9. As outlined in ANAO's audit of the Regional Partnership program, this obligation requires that the funding agreement be consistent with the terms of the grant spending proposal approved by the relevant Minister. An example of non-compliance identified in that earlier audit report related to circumstances where the partner funding arrangements specified in the funding agreement differed from those approved by the Minister.

\$1.66 contributed by other sources. The Minister has publicly stated on several occasions that the \$150 million in RDAF funding available under round one leveraged¹⁴⁶ funding on a multiple of about three times that amount. However, the available data indicates a lower ratio of partner funding was achieved.¹⁴⁷ This situation underlines the importance of the department providing the Minister with an update on any changes to partner funding arrangements.

Conclusions

6.40 Most of the funding awarded under the first RDAF funding round related to projects located in regional Australia.¹⁴⁸ However, projects located in major cities were eligible to apply for funding and, accordingly, eight of the projects approved were located in major cities. The proportion of projects located in regional Australia that were approved for funding was consistent (both in terms of the number of applications and the quantum of funding) with the proportion of applications received.

6.41 In terms of electoral distribution, applications for projects located in an electorate held by the ALP were more successful (both in terms of the number of applications approved and the quantum of funding approved) than those for projects located in an electorate held by the Coalition parties or Independent Members. In large part, this outcome was a result of projects located in ALP-held electorates being more highly represented in the panel's funding recommendations to the Minister.

6.42 The details of all 35 projects funded under the first round were published within a single media release on 7 September 2011, which was two days after the grants were approved. This approach avoided any perception that the timing of announcements was being used for party-political purposes.

¹⁴⁶ The phrase 'leveraged funding' involves a causal relationship between the awarding of the RDAF grant and the provision of contributions by other sources. Such a causal relationship does not exist in respect of some of the partner contributions listed in the funding agreements. In particular, for the RDAF program, partner contributions sourced and spent before the application for RDAF funding was submitted do not involve the RDAF program leveraging contributions from project partners.

¹⁴⁷ Similarly, the Minister has publicly stated that the \$200 million in funding available under the second round of RDAF leveraged funding in the order of a multiple of four. According to Regional Australia advice, the total value of the round two projects was \$780 million, of which \$199.8 million was provided under RDAF and, by extension, \$580.2 was contributed by other partners. Therefore, for every \$1 of RDAF funding there was \$2.90 in partner funding.

¹⁴⁸ According to definitions published by the Australian Bureau of Statistics.

It also allowed applicants to seek alternative funding sources as soon as possible where their application was unsuccessful, or to proceed toward project implementation where they were successful. However, there were subsequent delays with program implementation as a result of delays with the finalisation and signing of funding agreements with a significant number of the successful applicants. The funding agreements were signed over the period 13 December 2011 to 23 May 2012.

6.43 During the funding agreement negotiations, the partnership contributions were reviewed. The result was that the value of the partnership contributions differed from that specified in the application, and in subsequent advice to the advisory panel and the Minister, for 18 of the projects. Based on the signed funding agreements, RDAF funding totalled \$149.2 million and the partner contributions totalled \$247.8 million. Therefore, for every \$1 of RDAF funding there was \$1.66 contributed by other sources.

6.44 All unsuccessful applicants were given written feedback on their application and offered the opportunity to obtain more detailed verbal feedback. There was also an opportunity for stakeholders to provide both verbal and written feedback to Regional Australia and the panel on their experiences with round one. The feedback received was used to inform the design of the second round.



Ian McPhee
Auditor-General


Canberra ACT
19 September 2012

Appendices



Australian Government
Department of Regional Australia,
Local Government, Arts and Sport

Secretary

Ms Barbara Cass 
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
19 National Circuit
BARTON ACT 2601

Dear Ms Cass

Proposed Audit Report on the Design and Conduct of the First Application Round for the Regional Development Australia Fund

Thank you for your letter of 8 August 2012 and enclosed copy of the Australian National Audit Office's (ANAO) proposed audit report on the Design and Conduct of the First Application Round for the Regional Development Australia Fund (RDAF). I am writing to formally respond to the ANAO's draft audit report, including providing the Department of Regional Australia, Local Government, Arts and Sport's responses to each of the three recommendations.

The Department of Regional Australia, Local Government, Arts and Sport has adopted a continuous improvement approach to the management of its grants programs. As such, I appreciate the ANAO's acknowledgement that the Department has effectively managed the design and implementation of the first round of RDAF, and that the Department has invested resources into analysing previous ANAO reports to improve the design and delivery of the program. I also appreciate the ANAO's confirmation that a sound grants administration framework is in place, which supports both the achievement of program outcomes and decision-making processes that satisfy the requirements of grants management legislation.

The Department notes that it conducts its own review of programs at the conclusion of each round, and has incorporated the findings of those reviews in the design and delivery of RDAF. In addition, the Department has sought to implement the recommendations from previous ANAO reports in the establishment and delivery of Round One of RDAF. The Department has used early advice from the ANAO on Round One to improve and refine the delivery of Round Two. Recommendations in this Audit Report will be adopted in Round Three and subsequent rounds.

The Department of Regional Australia, Local Government, Arts and Sport provides the following response to the ANAO's recommendations, as set out in the audit report.

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Recommendation 1: *To provide a more efficient and effective means of differentiating between eligible applications in terms of their overall claims against the published assessment criteria, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport, in consultation with the Regional Development Australia Fund Advisory Panel, adopt a number rating scale for the merit assessment stage of future funding rounds.*

Department Response: Agreed. The Department of Regional Australia, Local Government, Arts and Sport will discuss options to adopt a rating scale which provides differentiation between eligible applications with the Regional Development Australia Fund Advisory Panel.

Recommendation 2: *In designing and administering grant programs, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport clearly outline to decision-makers the basis on which it has been assessed whether each application represents value for money in the context of the published program guidelines and program objectives.*

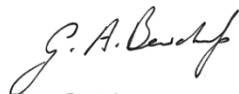
Department Response: Agreed. The Department of Regional Australia, Local Government, Arts and Sport notes that confirmation of value-for-money was included in the Application Overview provided to members of the Regional Development Australia Fund Advisory Panel in Round Two.

Recommendation 3: *ANAO recommends that, consistent with the key principles for grants administration outlined in the Commonwealth Grant Guidelines, the Department of Regional Australia, Local Government, Arts and Sport improve the documentation provided to the Minister in respect to the assessment of individual eligible applications against the published criteria to promoted a clear alignment between these assessments and the order of merit for funding recommendations.*

Department Response: Agreed. The Department of Regional Australia, Local Government, Arts and Sport's continuous improvement process will facilitate the review and enhancement of documentation provided to the Minister to ensure that the outcomes of the assessment align with the order of merit for funding recommendations.

I wish to convey my thanks to officers of the ANAO for the professional manner in which they conducted the audit, including their willingness to review feedback from the Department on the Issues Paper and to reflect that feedback in the draft report.

Yours sincerely



Glenys Beauchamp

7 September 2012

Appendix 2: Applications categorised as Recommended for Funding: panel's ratings against the criteria, panel's ranking and Minister's funding decisions

Applicant	Leveraging funding from a variety of sources	Contributing to and sustaining regional economic growth ¹	Provision of community benefits ¹	Sustainability and ongoing viability	Demonstrated capacity to implement and maintain the project	Supporting services to regional communities ²	Panel ranking	Ministerial funding decision
Newcastle City Council	Well Developed	Not Applicable	Well Developed	Well Developed	Well Developed	Not Applicable	1	Approved
Greater Bendigo City Council	Poorly Developed	Well Developed	Developed	Poorly Developed	Poorly Developed	Not Applicable	2	Approved
City of Greater Geelong	Well Developed	Well Developed	Well Developed	Developed	Developed	Not Applicable	3	Approved
Rockhampton Regional Council	Well Developed	Not Applicable	Well Developed	Well Developed	Well Developed	Not Applicable	4	Approved
Gold Coast City Council	Well Developed	Not Applicable	Developed	Developed	Well Developed	Not Applicable	5	Approved
Glenorchy City Council	Developed	Developed	Developed	Developed	Developed	Not Applicable	6	Approved

Applicant	Leveraging funding from a variety of sources		Contributing to and sustaining regional economic growth ¹		Provision of community benefits ¹		Sustainability and ongoing viability		Demonstrated capacity to implement and maintain the project		Supporting services to regional communities ²		Panel ranking		Ministerial funding decision	
Shire of Roebourne	Poorly Developed	Poorly Developed	Poorly Developed	Well Developed	Developed	Well Developed	Developed	Developed	Developed	Not Applicable	Not Applicable	7	Approved			
Townsville City Council	Poorly Developed	Not Applicable	Well Developed	Developed	Well Developed	Developed	Developed	Developed	Well Developed	Not Applicable	Not Applicable	8	Approved			
District Council of Streaky Bay	Developed	Not Applicable	Well Developed	Developed	Well Developed	Developed	Developed	Developed	Well Developed	Not Applicable	Not Applicable	9	Approved			
Flinders Ranges Council	Developed	Not Applicable	Well Developed	Developed	Well Developed	Developed	Developed	Well Developed	Well Developed	Not Applicable	Not Applicable	10	Approved			
Ballina Shire Council	Poorly Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Not Applicable	Not Applicable	11	Approved			
City of Rockingham	Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Developed	Not Applicable	Not Applicable	12	Approved			
Corporation of the City of Campbelltown	Well Developed	Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Developed	Not Applicable	Not Applicable	13	Not Approved			
Hobsons Bay City Council	Developed	Not Applicable	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Not Applicable	Not Applicable	14	Not Approved			
Lake Macquarie City Council	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Well Developed	Developed	Not Applicable	Not Applicable	15	Not Approved			

Appendix 2

Applicant	Leveraging funding from a variety of sources	Contributing to and sustaining regional economic growth ¹	Provision of community benefits ¹	Sustainability and ongoing viability	Demonstrated capacity to implement and maintain the project	Supporting services to regional communities ²	Panel ranking	Ministerial funding decision
Housing Industry Association Limited	Developed	Developed	Developed	Poorly Developed	Poorly Developed	Developed	16	Approved
St Giles Society Inc	Developed	Not Applicable	Poorly Developed	Developed	Developed	Well Developed	17	Approved
Central Coast Emergency Accommodation Services Ltd	Well Developed	Not Applicable	Developed	Developed	Developed	Well Developed	18	Approved
Shire of Katanning	Developed	Well Developed	Well Developed	Developed	Developed	Not Applicable	19	Approved
The Barossa Council	Developed	Poorly Developed	Developed	Developed	Poorly Developed	Not Applicable	20	Approved
Hunter Valley Research Foundation	Well Developed	Developed	Well Developed	Well Developed	Developed	Developed	21	Approved
District Council of Lower Eyre Peninsula	Developed	Poorly Developed	Not Applicable	Well Developed	Developed	Not Applicable	22	Approved

Applicant	Leveraging funding from a variety of sources	Contributing to and sustaining regional economic growth ¹	Provision of community benefits ¹	Sustainability and ongoing viability	Demonstrated capacity to implement and maintain the project	Supporting services to regional communities ²	Panel ranking	Ministerial funding decision
Somerset Regional Council	Well Developed	Not Applicable	Developed	Well Developed	Developed	Not Applicable	23	Approved
Uniting Care Wesley Port Pirie Incorporated	Developed	Not Applicable	Well Developed	Well Developed	Well Developed	Well Developed	24	Approved
Fairfield City Council	Poorly Developed	Well Developed	Well Developed	Well Developed	Well Developed	Not Applicable	25	Not Approved

Source: ANAO analysis of Regional Australia data.

Note 1: Applicants could choose to address one or both of the 'contributing to and sustaining regional economic growth' and 'provision of community benefits' criteria.

Note 2: The 'supporting regional services to regional communities' criterion was only applicable to not-for-profit applicants

Appendix 3: Eligible projects located in the Geelong region: panel’s ratings against the criteria, panel’s ranking and Minister’s funding decisions

	City of Greater Geelong	Karingal Inc	Geelong Football Club	Housing Industry Association
Assessment criteria				
Leveraging funding from a variety of sources	Well Developed	Well Developed	Developed	Developed
Contributing to and sustaining regional economic growth ¹	Well Developed	Not Applicable	Developed	Developed
Provision of community benefits	Well Developed	Well Developed	Developed	Developed
Sustainability and ongoing viability	Developed	Well Developed	Developed	Poorly Developed
Demonstrated capacity to implement and maintain the project	Developed	Well Developed	Developed	Poorly Developed
Supporting services to regional communities ²	Not Applicable	Well Developed	Well Developed	Developed
Category and ranking				
Category and ranking assigned by the advisory panel	Ranked 3 rd of 25 in the Recommended for Funding category	Highest ranked of 39 in the Suitable for Funding — Priority One category	One of 41 in Band 3 of the Suitable for Funding — Priority Two category	Not Recommended for Funding
Funding decision				
Funding decision made by the Minister	Approved	Not Approved	Approved	Not Approved

Source: ANAO analysis of Regional Australia data.

Note 1: Applicants could choose to address one or both of the ‘contributing to and sustaining regional economic growth’ and ‘provision of community benefits’ criteria.

Note 2: The ‘supporting regional services to regional communities’ criterion was only applicable to not-for-profit applicants.

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