

The Auditor-General  
Audit Report No.31 2005–06  
Performance Audit

## **Roads to Recovery**

**Department of Transport and Regional Services**

Australian National Audit Office

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of Australia 2005

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Canberra ACT  
1 March 2006

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit of the Department of Transport and Regional Services in accordance 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 *Roads to Recovery*.

Following its tabling in Parliament, 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', with a long horizontal flourish extending to the left.

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

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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## Abbreviations/Glossary

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R2R Annual Report	LGAs were required by the R2R Funding Conditions to submit Annual Reports to DOTARS to account for the use of R2R funds and certify that the Funding Conditions had been complied with
Administrative Guidelines	Administrative Guidelines published pursuant to section 11 of the R2R Act. The purpose of the Guidelines was to explain how the R2R Program worked
ANAO	Australian National Audit Office
Auslink Roads to Recovery	Second round of Roads to Recovery. This program is delivered through Part 8 of the <i>Auslink (Land Transport) Act 2005</i>
BTRE	Bureau of Transport and Regional Economics
Chainage	Linear measurement from a known point
DOTARS	Department of Transport and Regional Services
FAGs	Financial Assistance Grants provided under the <i>Local Government (Financial Assistance) Act 1995</i>
Funding Conditions	<i>Conditions Applying to Payments</i> determined under section 7 of the R2R Act
LGA	Local Government Authority
Notes on Administration	For Auslink Roads to Recovery, issued by DOTARS (replacing the R2R Administrative Guidelines)
NSW	New South Wales
NT	Northern Territory
PBS	Portfolio Budget Statements
Qld	Queensland
Quarterly Report	Quarterly Reports (of actual and forecast expenditure for each project) submitted by LGAs provided the basis on which R2R payments were made to LGAs
R2R Act	<i>Roads to Recovery Act 2000</i>
R2R Program	Initial Roads to Recovery Program

SA	South Australia
SALGGC	South Australian Local Government Grants Commission
SLRP	Special Local Roads Program (in South Australia)
SPPs	Special Purpose Payments made under section 96 of the Constitution
VIC	Victoria
WA	Western Australia
WALGGC	Western Australian Local Government Grants Commission
Works Schedule	Defined by the Administrative Guidelines as a proposal setting out the works for which funding is sought under the R2R Act



# Summary and Recommendations



# Summary

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## Background

1. In Australia, local government is responsible for planning, developing and maintaining a significant amount of the key infrastructure for its communities. This includes local roads, bridges and footpaths. In this context, of the nation's 810,000 kilometres of public roads, almost 650,000 kilometres (80 per cent) are local roads. Approximately one-third of these roads are sealed with the remainder unsealed.

2. Local government is not included in the legislative powers of the Commonwealth specified by section 51 of the Constitution. As a consequence, local government remains the responsibility of State governments. In this respect, local government bodies are established under State legislation and are subject to State government oversight. Nevertheless, since 1974–75, successive Australian governments have provided general purpose funding for local government through Specific Purpose Payments to the States and Territories.

3. In 2004–05, the Australian Government provided \$1.5 billion in Financial Assistance Grants (FAGs) to local government through the States and Territories. In 2005–06, local government is expected to receive more than \$1.6 billion in FAGs. This amount comprises general purpose assistance of \$1.1 billion and 'identified' (but untied<sup>1</sup>) local road grants of \$497 million.

## The Roads to Recovery Program

4. The Roads to Recovery (R2R) Program was announced by the Prime Minister and the then Minister for Transport and Regional Services (and Deputy Prime Minister) in November 2000. At this time, the Prime Minister stated that:

Roads to Recovery funding of \$1.2 billion over 4 years represents a 75% increase in current Federal Government grants for local roads, which are \$406 million in 2000–01.

... One of the greatest strengths of the Roads to Recovery Program is that the funding will go direct to Local Government and allow councils to spend the money according to their priorities.

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<sup>1</sup> These grants are distributed on the basis of road expenditure needs (including consideration of factors such as length, type and use of roads) but the amounts paid may be used for any purpose, including on roads.

5. The initial Program was established by the *Roads to Recovery Act 2000* (R2R Act). The full title of the Act is 'An Act to provide funding to supplement expenditure on roads'. Its main object 'is to provide \$1,200,000,000 for roads expenditure by local governing bodies'.

6. The initial Program commenced in early 2001 as a single intervention to address the problem that a significant amount of local government road infrastructure was about to reach the end of its economic life and its replacement was beyond the capacity of local government. A total of \$1.2 billion was paid to more than 730 Local Government Authorities (LGAs) between March 2001 and June 2005. In this respect, the Program is unusual in that funds are provided direct to local government rather than through the States and Territories.

7. The distribution of R2R funds between the States and Territories was determined at the Ministerial level. In arriving at the actual distribution, consideration was given to the historical results from using the FAGs identified for local roads; and population and length of road under the control of the local government, with each of these two statistics weighted equally.<sup>2</sup>

8. In turn, the allocation of funds within each State was determined using the formula applied by State Grants Commissions for the 2000–01 FAGs identified for local roads. Allocations to individual LGAs were set in a list tabled in the House of Representatives at the time the R2R Act was presented to Parliament. The R2R Act provided a Special Appropriation for payments to LGAs identified in the tabled list.<sup>3</sup> The R2R Administrative Guidelines stated that each LGA was guaranteed its full life of program allocation by 30 June 2005, subject to the submission of satisfactory documentation such as work schedules and Quarterly and Annual Reports.

### *Auslink Roads to Recovery*

9. The R2R Program was of such importance to local government that the Australian Local Government Association (ALGA), in association with its member associations, conducted a campaign during 2002 and 2003 to have R2R renewed beyond June 2005. According to ALGA, the key step was a review conducted jointly by ALGA and the Department of Transport and Regional Services (DOTARS) to assess the first two years of the R2R Program. The review concluded that, notwithstanding the contribution R2R funds had made, there remained deficiencies both in terms of the existing road system and the need to upgrade and in some cases extend it.

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<sup>2</sup> Consideration was also given to the long standing concern of South Australia that it received a disproportionately low level of funding under the FAGs identified for local roads.

<sup>3</sup> The Special Appropriation was capped at \$1.2 billion. It was also constrained by time, with any amount not spent by 30 June 2005 no longer available to be spent.



10. ALGA has stated that, given the Review's clear endorsement of the Program, it coordinated a national campaign to renew R2R. This included assisting and encouraging LGAs to write to their local members as well as to relevant Ministers.

11. In January 2004, the Australian Government announced that a further \$1.2 billion in R2R funding<sup>4</sup> would be provided over the four years from July 2005 to June 2009. The second R2R Program (referred to in this Audit Report as Auslink Roads to Recovery) commenced on 1 July 2005. Total funding to be appropriated under this second Program was announced as \$1.35 billion between 2005–06 and 2008–09.<sup>5</sup> On 10 November 2005, the Government announced an additional \$100 million for the Strategic Regional Program component of the Auslink Roads to Recovery bringing the full cost of the Program to \$1.45 billion.

#### *Administrative responsibility*

12. Both R2R Programs are administered by DOTARS. DOTARS advised ANAO in December 2005 that it was not the Government's intention that the Department closely oversight LGA operations. Instead, the obligation to meet the Program Funding Conditions was placed with LGAs, including through the annual reporting and funding acquittal processes. DOTARS further advised that the R2R Act was framed around the following Program delivery decisions made by the Government:

- funds were to be paid directly to LGAs;
- project priorities were the choice of LGAs; and
- the process by which grants were paid to the LGAs was to be simple, with appropriate audit and accountability systems and arrangements put in place to ensure that there is due recognition by LGAs of the Commonwealth's contribution to local road projects.

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<sup>4</sup> In its Election 2004 Policy '*Local Government – Building on Our Relationship*', the Coalition announced that the full \$1.2 billion would be provided to local councils on the same basis as the initial R2R Program. Also, an extra \$150 million would be provided for roads in unincorporated areas (\$30 million) and strategic roads (\$120 million). This announcement was also made in the transport policy statement, '*Building Our National Transport Future*', issued 15 September 2004.

<sup>5</sup> Whereas the initial R2R Program was funded through a Special Appropriation, the Auslink Roads to Recovery Program is funded through Annual Appropriations. Between 2005–06 and 2008–09 \$300 million per annum has been budgeted in administered expenses within DOTARS' Outcome 1 ("A better transport system for Australia") for the formula component payments to LGAs. Annual allocations to individual LGAs are based on the Annual Appropriations. Other components of the \$1.35 billion are identified in Table 1.3 in Chapter 1 of this Report.

## Audit scope and objectives

13. The audit scope covered development of the R2R Program, management of the initial R2R Program and changes made to the Program funding conditions and administrative guidance for Auslink Roads to Recovery. The scope did not include management of Auslink Roads to Recovery. The audit objectives were to:

- assess the efficiency and effectiveness of the management of the initial R2R Program; and
- identify any opportunities for improvements to management of the Program.

14. A key part of the audit involved examination of the use of, and accountability for, R2R funds by a representative sample of 93 LGAs (representing more than one in eight funding recipients) from around Australia. This work included site inspections of more than 400 projects funded under the Program, analysis of financial and other reports provided by the 93 LGAs to DOTARS, and substantiation of the amounts charged to the R2R Program for selected projects.

## Overall audit conclusions

15. The R2R Program is the largest investment in local roads ever undertaken by the Australian Government. As part of the initial R2R Program audited by ANAO, a total of \$1.2 billion was paid to local government for expenditure on the construction, upgrade and/or maintenance of roads. Almost all LGAs received their full R2R allocation.

16. The Government considered LGAs best placed to make decisions on road investment at the local level. The R2R Program reflected this by giving LGAs the freedom to use the funds as they wished, as long as it was for expenditure on roads (as defined by the R2R Act). DOTARS has reported that, of the approximately 15,000 road projects funded over the life of the Program, most involved reconstruction, rehabilitation and widening of local roads; sheeting and re-sheeting gravel roads with a new surface; sealing along sections of gravel roads; and bridge or drainage works. In this context, LGAs have reported to DOTARS that the key outcomes they achieved with their R2R funds have been improved road safety, better asset management and improved heavy vehicle access.

17. The R2R Program was intended to address the problem that a significant amount of local government road infrastructure was reaching the end of its economic life and its replacement was beyond the capability of local government. It was for this reason that the funding provided under the R2R Act was to be additional to existing road funding. Accordingly, provisions

were included in the Act, the R2R Funding Conditions and the R2R Administrative Guidelines aimed at ensuring that LGAs were not cost shifting by substituting Australian Government funding for their own in constructing, upgrading and maintaining local roads. However, more than 60 per cent of the individual LGAs examined by ANAO had not maintained their expenditure at the required level (that is, at or above the average for the period 1998–99 to 2000–01) in at least one year between 2000–01 and 2003–04. Some had not maintained their own expenditure in any year. Furthermore, having regard to the fundamental importance to the R2R Program that funds provided by the Commonwealth be additional to existing road funding, ANAO considers there was merit in DOTARS undertaking periodic assessments of whether aggregate local government spending on roads had been maintained. This was not done.

**18.** It was recognised at the time the initial R2R Program was being implemented that the payment of funds direct to local government (rather than through the States and Territories) placed an onus on DOTARS to ensure the funds are spent on roads, and that the funds were properly accounted for. This was seen to represent a new and substantial area of responsibility for DOTARS to be managed within its existing administrative resource base (that is, no additional funding was provided to administer the initial R2R Program). After an initial period of about a year when nine staff were involved, payments to LGAs, together with other aspects of the Program, were administered by a manager and three staff in the Canberra offices of DOTARS.

**19.** The grant payment and acquittal processes were, by design and in accordance with the Government's intention, simple. Nevertheless, a significant amount of useful information was required by the Funding Conditions and Administrative Guidelines to be provided to DOTARS by LGAs. However, over the duration of the Program, insufficient use was made by DOTARS of this information. Thorough and timely analysis of the information provided to it by LGAs would have provided DOTARS with practical insights into the delivery of the R2R Program by LGAs, including the extensive delays in use of funds by some LGAs.

**20.** In this context, this audit demonstrates the importance of program management and accountability mechanisms giving reasonable assurance that road projects are undertaken in accordance with the scope and timelines proposed by LGAs. Further, effective management and monitoring of program implementation is critical to the achievement of the outcomes the Government and the community expects.

## Recommendations

21. During the course of the audit, a number of issues were addressed by DOTARS in developing the Auslink Roads to Recovery Funding Conditions and Notes on Administration (which replaced the Administrative Guidelines used in the initial R2R Program audited by ANAO). The changes made by DOTARS are recognised and acknowledged throughout the report. In addition, DOTARS advised ANAO that better processes are to be adopted for Auslink Roads to Recovery, including:

- upgrade of the Program's computer system to cross reference Quarterly and Annual Reports submitted by individual LGAs;
- checks being made of the start and finish dates of projects to ensure that payments are made at the appropriate time; and
- checks being made to ensure that funds are used by LGAs within six months of being paid by DOTARS.

22. Nevertheless, ANAO considers that further improvements would add value. Accordingly, ANAO has made 10 recommendations relating to:

- analysing the benefits and costs of projects so as to inform consideration of any further extension to the R2R Program beyond 30 June 2009 (when the Auslink Roads to Recovery Program is scheduled to end);
- periodic assessments as to whether aggregate local government spending on roads has been maintained;
- stronger governance arrangements including improving the accuracy and usefulness of information submitted by LGAs;
- improved financial management including better matching payments to LGA needs and ensuring that LGAs are neither penalised, nor receive a financial advantage, from legitimate delays in using funds provided for road works; and
- enhanced accountability for, and oversight of, the special project allocations for South Australia and Western Australia.

23. DOTARS agreed to all recommendations, with a qualification on one part of one recommendation.

# Key Findings

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## Program Outcomes and Accountability (Chapter 2)

### Project outcomes

24. DOTARS has reported that, when classifying projects by type, of the approximately 15,000 road projects funded over the life of the Program:

- almost 34 per cent involved reconstruction, rehabilitation and widening of local roads;
- more than 14 per cent involved sheeting and re-sheeting gravel roads with a new surface;
- nearly 12 per cent involved sealing along sections of gravel roads; and
- over 10 per cent involved bridge or drainage works, with about 700 bridges replaced or repaired.

25. Further, according to R2R Annual Reports submitted to DOTARS by the LGAs in ANAO's sample, most of the R2R funds were spent with the objectives of improving road safety (30 per cent), achieving better asset management (25 per cent) and improving heavy vehicle access (12 per cent). A relatively low proportion (six per cent) of R2R funds were reported as being spent on regional economic development.

### Recognition of Commonwealth funding

26. In terms of recognising the Commonwealth funding of road works undertaken by local government, the R2R Funding Conditions stated as follows:

An LGA must ensure that the Commonwealth receives appropriate recognition for its contribution to the road works concerned. Each LGA must erect signs acknowledging the Commonwealth's role in respect of all works funded under the Act and cooperate with the Commonwealth in informing the public of the Commonwealth's role, in accordance with the Guidelines.

27. The importance of the signage requirements was emphasised to LGAs in July 2004 in advice from DOTARS. This advice reminded LGAs of the R2R signage requirements. It also informed them that 'councils not meeting the signage requirements are non-complying and will receive no more funds until evidence is provided to show that the deficiencies have been rectified.' However, the required signs were not in place for 45 per cent of projects inspected by ANAO that were required to have signs in place.

28. Recognising the issues that arose in the initial R2R Program, changes have been made to the signage requirements for the Auslink Roads to

Recovery Program. These include reduced signage requirements for small value projects and a reduction in the time period signs are to remain in place from two years to one year.

## **Aggregate local government expenditure on roads**

29. Cost shifting involving local government has been a significant issue for a number of years. In general, the concern has involved shifting of costs from the Australian and State/Territory Governments to local government. However, in developing the R2R Program, the Government was concerned to address cost shifting in the other direction; that is, LGAs substituting Commonwealth funds for their own expenditure on roads. Accordingly, provisions were included in the R2R Act, Funding Conditions and Administrative Guidelines requiring LGAs to maintain their own source expenditure at the required level (that is, at or above the average for the period 1998–99 to 2000–01), rather than substituting Commonwealth funding for their own, in constructing, upgrading and maintaining roads.

30. Accordingly, it was of fundamental importance to the R2R Program that funds provided by the Commonwealth be additional to existing road funding. However, in its administration of the R2R Program, DOTARS did not attempt to assess whether or not, in aggregate, local government spending on roads had been maintained since the introduction of the R2R Program.

### *Maintenance of the level of road works expenditure by individual LGAs*

31. The R2R Funding Conditions stated that each LGA must maintain the level of roads expenditure which it funded otherwise than under the R2R Act, and provide a statement to DOTARS that it had done so. In order for DOTARS to rely on the LGA certifications, it was important that LGAs had analysed whether they had maintained their own source expenditure *prior* to certifying. However, in the course of the audit, a number of LGAs advised ANAO that they had not undertaken their own analyses of their roads expenditure in order to give proper consideration to the whether they had maintained their own expenditure prior to certifying that they had. This raised the possibility that a number of the certifications provided to DOTARS by LGAs had been made in error, as the financial analysis necessary to substantiate the certifications had not been undertaken.

32. In this context, ANAO undertook an examination of the R2R Annual Reports for 2000–01 to 2003–04 inclusive<sup>6</sup> submitted by the 93 LGAs in the sample. The examination of these reports revealed that 89 of the 93 LGAs certified in each year that they had maintained their own roads expenditure.

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<sup>6</sup> At the time of audit fieldwork, 2004–05 Annual Reports were not yet due and so 2004–05 R2R Annual Reports were not available for analysis.

However, inconsistent approaches were taken by DOTARS to LGAs that did not certify they had maintained their own expenditure on roads. Specifically, DOTARS only contacted one of the four LGAs to raise concerns that expenditure was not being maintained.

**33.** Of the 93 LGAs in ANAO's sample, sufficient financial data was available from 83 LGAs to assess whether they had actually maintained their own expenditure on roads.<sup>7</sup> In total, 31 of the 83 LGAs (37 per cent) for which ANAO was able to undertake the analysis had maintained their expenditure above the average level in the reference period of 1998–99 to 2000–01. However, the remaining 52 LGAs (63 per cent) had not maintained their own source expenditure in at least one year between 2000–01 and 2003–04. Ten LGAs in the sample did not maintain their expenditure in any of the four years examined.

**34.** A number of changes have been made to the expenditure maintenance requirements for the Auslink Roads to Recovery Program. A key change has been that the LGA certification has been expanded to require LGAs to specify the amount spent using its own sources in each year together with the reference average amount. This should assist DOTARS to monitor compliance by LGAs with their expenditure maintenance obligation.

**35.** A further significant change involved providing greater flexibility in the expenditure maintenance requirement so as to take account of the fluctuating nature of LGA expenditure. DOTARS considers that the changes are fairer and take better account of the realities of LGA operations and expenditure on roads.

### **Annual statement of accountability by funding recipients**

**36.** LGAs were required by the R2R Funding Conditions to submit Annual Reports to DOTARS covering their use of R2R funds by no later than 30 September each year.<sup>8</sup> However, over the course of the Program, more than 29 per cent of R2R Annual Reports were submitted after the due date.

**37.** DOTARS payment procedures required Departmental officers to satisfy themselves as to whether a satisfactory Annual Report had been received prior to making further payments to an LGA. Although payments were generally not made unless an Annual Report had been submitted, this did not mean that

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<sup>7</sup> For the remaining 10 LGAs, the relevant financial statements did not enable ANAO to analyse whether expenditure had been maintained, and the LGAs did not provide other data that addressed the issue.

<sup>8</sup> For Auslink Roads to Recovery, the Annual Report due date has been extended to 31 October. This is to align with the payment cycle with the October quarterly reporting period ending on 31 October after which payment processing begins.

the Annual Reports were satisfactory.<sup>9</sup> In this respect, DOTARS did not develop and document criteria by which it would assess whether or not Annual Reports submitted by LGAs were 'satisfactory'. Analysis of R2R Annual Reports submitted by ANAO's sample of LGAs found 43 per cent of Annual Reports contained errors of varying significance. These included important parts of the form not being completed; the required certification not being provided (this included incorrect years being specified for the expenditure maintenance certificate); and errors in the audited financial statement.

38. ANAO's examination of DOTARS' management of the wind-up of the R2R Program revealed that DOTARS has begun applying greater scrutiny to R2R Annual Reports and, where errors have been detected, requiring a corrected Report to be submitted.

### **Governance Framework (Chapter 3)**

39. There were four key governance documents that underpinned the administration of the R2R Program, namely:

- the R2R Act;
- a list of funding recipients and the amounts they were to receive;<sup>10</sup>
- *Conditions Applying to Payments* (the Funding Conditions) determined under section 7 of the R2R Act; and
- Administrative Guidelines published pursuant to section 11 of the R2R Act. The purpose of the Administrative Guidelines was to explain how the R2R Program worked. The Funding Conditions stated that an LGA must comply with the Guidelines.

40. The development of the R2R Act, Conditions and Administrative Guidelines occurred between 20 November 2000 and 15 February 2001 (some three months). The speed with which the key governance documents were developed enabled the first payments to be made to LGAs in March 2001.

#### **List of funding recipients**

41. ANAO identified five significant instances where there was a difference between the gazetted funding list and amounts paid to LGAs. Each involved an administrative error where notices signed by Ministers to reallocate funds in the wake of council restructuring in NSW were not gazetted as required.

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<sup>9</sup> The Annual Report had three sections (see Appendix 2 of this Audit Report). In February 2006, DOTARS advised ANAO that the checklist for annual reports took its final form in 2003–04.

<sup>10</sup> Section 5 of the R2R Act required the funding list to be published in the Gazette.



DOTARS noted that the funds went to the LGAs as intended by the notices signed by the Minister and had a zero-net effect on the overall payments made to NSW LGAs. In November 2005, DOTARS obtained legal advice that these payments were not supported by the R2R Act Special Appropriation but there was an alternative available appropriation to support the payments that had been made in 2004–05.

42. There were also two LGAs that were paid less than their gazetted allocation. The first involved a LGA in Queensland that had not provided an R2R Annual Report for 2003–04 and, as a result, was not paid the remainder of its allocation. The other instance involved a LGA that had insufficient expenditure and forecast expenditure to support payment of the full allocation. In this respect, ANAO found that there were 13 LGAs in ANAO's sample of 93 that also had insufficient forecast and actual expenditure to justify payment of their full allocation. However, these 13 LGAs were each paid their full allocation, demonstrating an inconsistent adoption of the principle that payments be supported by actual and forecast expenditure on eligible roads projects.

### **Eligible projects**

43. The ability of LGAs to nominate their own projects was subject to the requirement that the projects involve the construction, upgrade or maintenance of roads, as defined in the R2R Act. Under the R2R Act, the term 'road' is defined broadly. It includes traffic lights and signs, street lights, vehicular ferries, bridges and tunnels and bike paths.

44. In order to provide an effective control over expenditure regarding R2R funds on allowable works, there needed to be a shared understanding between DOTARS and the funding recipients of the meaning of 'road project' under the R2R Act. While DOTARS responded to specific questions raised by certain LGAs about the eligibility of certain projects, it did not issue guidance to all LGAs regarding eligible and ineligible projects.

45. In this context, ANAO's analysis of reported works projects delivered using R2R funds by the sample of 93 LGAs revealed that a shared understanding was, at times, lacking. As a result, ANAO found inconsistencies in views and/or practices in a number of areas. ANAO also found a range of practices being adopted by LGAs in charging of administrative costs to projects.

46. A significant improvement on the issue of eligible projects was made for the Auslink Roads to Recovery Program. Specifically, on 1 July 2005, the first day of the Auslink Roads to Recovery Program, DOTARS issued advice to all LGAs on eligible projects. However, uncertainty concerning the charging of administrative costs has yet to be resolved.

## Reporting arrangements

47. While LGAs could decide the projects that they would deliver using the R2R funds, certain information, as set out in the Administrative Guidelines, was to be submitted to DOTARS before a payment could be made. This included a works schedule. The Guidelines defined 'works schedule' as a proposal setting out works for which funding is being sought under the Act.

48. The works schedules were relied upon by DOTARS in making payments to LGAs. Specifically they provided details to enable DOTARS to assess whether proposed works were eligible under the R2R Act. They also provided start and completion dates that could be used by DOTARS to ensure payments were not made more than three months prior to works being carried out.

49. On nine occasions DOTARS reinforced to LGAs the importance of works schedules being kept up to date. However, ANAO's examination of 93 LGAs revealed that, in many instances, the works schedules did not reflect the required information, or were inaccurate, as follows.

- The location of the proposed works being funded by the R2R Program, as reported in the works schedule, was inadequate for 34 per cent of the projects inspected by ANAO. The most common discrepancy involved LGAs not specifying the location (for example, by identifying relevant crossroads or chainage) where the project involved work on a section of the identified road rather than the entire road. There were also instances where the location descriptions were so broad as to make identification of the works themselves difficult. In other instances, the works schedule description was simply inaccurate.
- The R2R Administrative Guidelines stated that the works schedule should contain information on the nature of the works proposed and the problems to be addressed by the works. Of those projects examined by ANAO, 54 per cent of projects did not include the nature of the works proposed and/or the solution being employed. This was important because work schedule descriptions of the problem and works proposed provided necessary information for DOTARS to assess the eligibility of LGAs' proposed use of R2R funds. In addition, accurate and complete work schedule descriptions were necessary to fairly reflect the outcomes of the R2R Program.
- In addition to inadequacies in the works schedules submitted to DOTARS, ANAO project inspections highlighted that approximately 32 per cent of projects were not undertaken as reported. Some were understated (in that more work has been done than indicated in the works schedule description) while others were overstated. There were

also a small number of projects that had not been undertaken at the time of the visit.

- The approach to determining start and completion dates was not defined in the R2R governance documents. As a result, inconsistent practices were adopted by LGAs. This was important because start and completion dates could affect the timing of payments<sup>11</sup> to the LGA. In addition, start and completion dates were relevant to the R2R signage requirements.<sup>12</sup>

## Changes made for Auslink Roads to Recovery Program

50. The Auslink Roads to Recovery Program operates under similar arrangements to the R2R Program. However, the Auslink Roads to Recovery Program has an increased emphasis on funding recipient accountability and reporting. The Funding Conditions established as part of Auslink Roads to Recovery were strengthened to take into account issues raised during the course of the ANAO performance audit. Program administration improvements identified by DOTARS are also being introduced to improve monitoring of LGA compliance with the Auslink Roads to Recovery Program Funding Conditions.

51. A further key change relates to the enforceability of the Funding Conditions and Administrative Guidelines (referred to as Notes on Administration for the Auslink Roads to Recovery Program). Legal advice to DOTARS in May 2005 was that there were very limited circumstances under the R2R governance arrangements in which LGAs could be asked to repay funds or be denied further payments. In December 2005, DOTARS advised ANAO that the Auslink Roads to Recovery Funding Conditions are legally enforceable, and that all the matters which need to be legally enforceable are in the Funding Conditions.

## Financial Management (Chapter 4)

52. DOTARS recognised that it was important to time payments to LGAs so that they could undertake R2R works without transferring funds from their normal road activities. At the same time, DOTARS recognised that payments should not be made too far in advance of need as this would incur a cost to the Commonwealth, as well as adversely impacting on accountability.

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<sup>11</sup> On occasion, DOTARS reduced forecast expenditure figures submitted in Quarterly Reports where it was apparent that the project was not scheduled to be undertaken in the ensuing three months.

<sup>12</sup> The R2R Guidelines specified that R2R signs be erected at each end of the works when work began, and be maintained for two years after the project was finished.

53. After the initial payment to LGAs, the practice that was adopted involved paying LGAs in advance, based on Quarterly Reports that included data on expenditure to date as well as forecast expenditure for the next quarter. This meant that, by design, the Program included allowance for LGAs to hold funds for up to three months before being used. This approach meant that LGAs were not financially disadvantaged.

54. However, insufficient steps were taken to ensure that LGAs did not receive a financial advantage. In this respect, ANAO's examination of a sample of LGAs revealed many instances of LGAs being paid more than three months in advance of the expenditure of R2R funds. The reasons for this were as follows:

- **'Hardship' payments were made in advance of need.**

In May 2002, the Government announced that, in order to meet important budgetary priorities, the funds to be provided for the Program would be reduced by \$100 million in 2002–03, with this amount reinstated in 2004–05. However, as a result of an underspend in 2001–02 funds, DOTARS identified \$14.6 million that could be made available to LGAs in June 2002 that would suffer hardship as a result of their 2002–03 allocation being reduced. Hardship claims were submitted by 41 LGAs between June and October 2002. The then Minister approved the hardship claims of 36 LGAs. Each of the successful LGAs had the required amount of funds reinstated up to the original level of its 2002–03 allocation. However, ANAO observed delays in some of these LGAs using the reinstated funds.

- **Accelerated funding was insufficiently matched to LGA cash flow needs.**

In 2000–01, LGAs were able to receive accelerated payments when payments to all LGAs were less than the Budget estimate for the year, providing the LGA seeking accelerated funding had sufficient actual and forecast expenditure to support further payments.<sup>13</sup> However, there were a number of instances where ANAO's analysis of accelerated payments revealed that works were not undertaken as proposed by LGAs when they requested accelerated funding. As a result, funds remained unused with the LGAs for a considerable period of time. In addition, the manner in which accelerated funding was made available did not sufficiently match R2R payments to LGA cash flow needs such that some LGAs were paid well in advance of their requested timing.

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<sup>13</sup> LGAs with a small total allocation (\$160,000 or less in total grants over the life of the Program) were also able to receive accelerated funding with their full allocation paid in one or two instalments.

- **Actual expenditure was overstated in LGA Quarterly Reports submitted to DOTARS.**

LGAs were required to include in their Quarterly Reports the cumulative expenditure on each project. ANAO analysis of Quarterly Reports identified that 65 per cent of the LGAs included in the sample reported reductions in cumulative expenditure for one or more projects. As a result of these reductions in project expenditure, 35 per cent of the LGAs in the sample had their total cumulative expenditure for the program fall in one or more quarters. As cumulative expenditure is a cash figure, reductions in these figures generally should not, in the absence of reporting errors, occur.

- **Unreliable expenditure forecasts were included in LGA Quarterly Reports.**

In addition to reported expenditure to date, payments under the R2R Program were made to LGAs by DOTARS based on the forecast expenditure reported by the Council in each Quarterly Report. ANAO analysis identified 88 per cent of LGAs in the sample had forecast expenditure reported on particular projects in one or more Quarterly Reports but where little, or no, further expenditure on the project was reported in the following Quarterly Report. Some LGAs advised ANAO that their forecasts had been erroneous or overly optimistic. In addition, or as well, some LGAs advised ANAO that their forecasts were subject to variables that are outside their control.

55. Where LGAs were paid in advance of their needs, a financial benefit accrued to the LGA at the expense of the Australian Government. ANAO calculated that the cost to the Commonwealth of payments being made more than three months in advance of need to the 93 LGAs in ANAO's sample was between \$1.4 million and \$3.3 million.<sup>14</sup> Extrapolating the interest cost to the full \$1.2 billion paid under the Program results in an estimated cost to the Commonwealth of between \$8.4 million and \$19.4 million.

## **Auslink Roads to Recovery changes**

56. A number of changes have already been made in the Auslink Roads to Recovery Payment Conditions and Notes on Administration to address the timely expenditure of Auslink Roads to Recovery funds. Specifically, the Funding Conditions state that:

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<sup>14</sup> Four LGAs in ANAO's representative sample advised ANAO that they had invested R2R funds. Of these, two further advised ANAO they reinvested the interest earning in R2R road works.

- funding recipients must ensure that Auslink Roads to Recovery payments are spent within six months of receipt of the payment;
- funding recipients must spend all Auslink Roads to Recovery payments by 31 December 2009; and
- if a funding recipient receives an amount as interest in respect of an Auslink Roads to Recovery payment, the recipient must spend an amount equal to that amount on the construction or maintenance of roads.

57. ANAO considers that there would be benefit in further changes to the funding arrangements to reflect the inherent uncertainties in road works, and the risk of errors in Quarterly Reports. In addition, ANAO considers that the Funding Conditions should reflect the principle that LGAs should not be penalised, or receive a financial advantage, from legitimate delays in using Roads to Recovery funds.

58. In this context, there is a risk that the approach taken in the Funding Conditions to identifying and calculating the benefit to LGAs (and cost to the Commonwealth) of funds not being used in a timely manner may be administratively complex for LGAs. There are also circumstances where it may be difficult for DOTARS to identify whether LGAs have earned interest on Commonwealth funds and, if so, the amount of interest. Accordingly, there would be value in the approach to this issue being revisited in the Auslink Funding Conditions.

## Special Project Allocations (Chapter 5)

59. In line with the arrangements for the local roads component of FAGs:
- in Western Australia (WA), \$12.6 million, or 7 per cent of the R2R Program funding for the State was held back from LGAs for bridges and Aboriginal access roads. Two-thirds of the \$12.6 million was allocated to bridge projects and one-third to roads serving remote Aboriginal communities. This involved 64 projects across 35 LGAs; and
  - in South Australia (SA), \$15 million, or 15 per cent of the R2R Program funding for the State was held back from LGAs for distribution in connection with the State's Special Local Roads Program. In total, 63 projects were approved for 35 individual LGAs and six regional associations. The latter represented a number of LGAs working together to develop regional plans of strategic road networks.

## Western Australian Special Projects

60. In relation to the \$12.6 million Special Project Allocation for WA, in April and May 2002, DOTARS wrote to relevant WA LGAs advising them that the then Minister for Transport and Regional Services had approved a further allocation of R2R funds to them. This correspondence also informed each LGA of the total amount involved, the relevant project or projects, the scope of works to be undertaken and the amount of funds allocated for each project. In some instances, for work to be undertaken during 2001–02, funds had already been provided to the relevant LGA. Other LGAs were advised to enter each project into their R2R works schedule and include them in their normal R2R Quarterly Reports in order to obtain their funds at the appropriate time.

61. Although underlying the additional allocation amounts were individual projects selected through a consultative process, no steps were taken by DOTARS in the gazettal process, or through amendments to either the Funding Conditions or the Administrative Guidelines to require that the allocated amounts be spent on the selected projects. This exposed the Commonwealth to risks that selected projects may not be undertaken and of cost-shifting from selected projects to other works. ANAO found that both risks were realised.

62. ANAO's analysis revealed a number of instances where Special Projects had not been included in work schedules and Quarterly Reports, but the full R2R allocation had been paid to the LGA by DOTARS. In addition, it needs to be recognised that analysis of WA Special Projects was impeded by the inconsistent practices adopted across and within LGAs for identifying their Special Project allocations. Some LGAs specifically identified the relevant projects as involving Special Project allocation funds. Others did not.

### *Reallocation of funds*

63. The WA Special Projects allocation was provided to particular LGAs to address specific needs in accordance with the recommendations of the WA Government. Accordingly, DOTARS' procedures should have guarded against funds allocated for specific projects being diverted, without approval, to other road works.

64. ANAO found that there were three occasions where an LGA had sought, and obtained, approval to reallocate funds from an approved Special Project or Projects to other road works. However, ANAO identified a further 12 LGAs where the R2R reports submitted to DOTARS indicated that funds approved for expenditure on Special Projects had been reallocated, without approval having been sought from either DOTARS or Ministers.

65. Further, reallocation of funds from a Special Project to other road works projects within the same LGA is, in principle, inequitable as it means

that the particular LGA has received a greater share of R2R funds than it would otherwise have received had the Special Project allocation not existed. Such inconsistencies were not addressed by DOTARS in its advice to Ministers on reallocation requests.

## **South Australian Special Projects**

**66.** The administrative arrangements for the \$15 million SA Special Allocation differed significantly from the approach adopted for other payments made under the provisions of the R2R Act (including the WA Special Allocation). Specifically, administration of, and accountability for, the SA Special Allocation was undertaken through the South Australian Local Government Grants Commission (SALGGC).

### *Payment procedures*

**67.** The SALGGC, as the funding recipient in the published list gazetted at the commencement of the R2R Program, had responsibilities similar to those of LGAs. This included responsibility for entry of project details in works schedules, and the submission of Quarterly and Annual Reports.

**68.** Unlike the broader R2R Program, projects identified in the SALGGC's works schedule related to separate LGAs. As a result, unused funds paid to one LGA/regional association for its project were unable to be used on other R2R Special Local Roads Program projects. Instead, additional funds were obtained from DOTARS for on-payment by the SALGGC. This involved a financial cost to the Australian Government.

**69.** The final, and by far the largest, R2R Program payment was made in September 2004 based on the August 2004 Quarterly Report submitted to DOTARS. The SALGGC was advised to request the funding as a lump sum at the beginning of the financial year. The \$5 million in expenditure forecast in August 2004 to be undertaken between August and October 2004 remained substantially unused by 30 April 2005. At this date, the final R2R Quarterly Report submitted by the SALGGC reported that \$4.21 million remained unspent. This situation also involved a financial cost to the Australian Government.

### *Accountability arrangements*

**70.** Having an intermediary account for use of R2R funds on road projects presents difficulties for the intermediary. Although DOTARS intended that LGAs be responsible to the SALGGC for the funds they received from it, the R2R Funding Conditions did not require LGAs to provide the SALGGC (or DOTARS) with R2R Annual Reports on funds paid to them through the SALGGC. In this context, there were 13 LGAs/regional associations that did not provide the SALGGC with an R2R Annual Report in one or more years to



acquit outstanding R2R funds. Three of these did not submit an R2R Annual Report to the SALGGC in any year up to 2003–04.<sup>15</sup>

71. Unlike the Annual Reports submitted by individual LGAs, the SALGGC’s Annual Reports did not acquit the amount of R2R monies spent on actual roads projects. Instead, Annual Reports submitted by the SALGGC were simply a record of incoming and outgoing R2R funds from the SALGGC’s bank account. ANAO’s analysis revealed that, in each year the SA Special Allocation operated, LGAs were paid more funds than they reported as being spent.

### **Changes made for Auslink Roads to Recovery**

72. The Auslink Roads to Recovery Funding Conditions explicitly address the risk of special project allocation funds not being used for approved projects as well as unapproved reallocation of unspent funds. The Auslink Roads to Recovery Conditions also address accountability in situations where a funding recipient receives, spends or retains any Auslink Roads to Recovery payment which the Australian Government has specified is to be spent, in whole or part, on a particular project.

73. The R2R Funding Conditions and Administrative Guidelines did not address the use of an intermediary for Program administration and accountability for the SA Special Allocation. This oversight has not been addressed in the Auslink Roads to Recovery Program. Specifically, the payment of funds to LGAs through an intermediary such as the SALGGC, and accountability for related projects and funds, have not been specifically addressed.

### **DOTARS response to the audit**

74. DOTARS provided the following comment on the report:

The audit of the *Roads to Recovery* Program by the Australian National Audit Office (ANAO) found no evidence that the \$1.2 billion provided to councils under the Roads to Recovery Program was not spent as intended by the Australian Government on the construction, maintenance and upgrading of local roads. The Department of Transport and Regional Services (the Department) notes that almost 15,000 projects were funded by the Program.

The local delivery of the Program involved councils determining project priorities within a national programme framework. The ANAO identified several areas where the Program’s administration could be strengthened. The Department accepts all recommendations with one qualification. The ANAO

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<sup>15</sup> 2004–05 Annual Reports were not due at the time of ANAO’s fieldwork.

acknowledges these matters are (being) addressed by the funding conditions and Notes on Administration for Auslink's *Roads to Recovery* Program.

The adjustments to funding conditions and procedures for Auslink's Roads to Recovery Program flowed from both a continuous improvement process for the initial program and issues raised by the ANAO during the course of the audit. The development of a new information technology system in 2006 will also enhance administrative procedures.

# Recommendations

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**Recommendation No.1  
Para 2.18** ANAO *recommends* that, to assist to inform consideration of any further extension to the Roads to Recovery Program, prior to the end of the Auslink Roads to Recovery Program DOTARS conduct a benefit cost analysis of a representative sample of projects funded by the Australian Government.

**DOTARS Response:** Agreed.

**Recommendation No.2  
Para 2.67** ANAO *recommends* that, having regard to the fundamental importance to the Roads to Recovery Program that funds provided by the Commonwealth be additional to existing road funding, DOTARS undertake periodic assessments of whether aggregate local government spending on roads has been maintained.

**DOTARS Response:** Agreed.

**Recommendation No.3  
Para 3.22** ANAO *recommends* that DOTARS limit Auslink Roads to Recovery payments to the amounts supported by actual and forecast expenditure included in Quarterly Reports submitted by Local Government Authorities.

**DOTARS Response:** Agreed.

**Recommendation No.4  
Para 3.47** ANAO *recommends* that DOTARS instigate measures to promote, at an early stage of the Auslink Roads to Recovery Program, a shared understanding with Local Government Authorities on the extent to which administrative costs may be charged to the Program, and what may be included as part of these costs.

**DOTARS Response:** Agreed.

**Recommendation No.5** ANAO *recommends* that DOTARS improve the accuracy and usefulness of works schedules by:

**Para 3.75**

- (a) analysing works schedules submitted by Local Government Authorities in order to promote a consistent minimum standard of works identification and specification;
- (b) providing Local Government Authorities with clear rules on the specification of start and completion dates to be included in works schedules; and
- (c) implementing a risk-based program of site inspections that, among other things, carefully scrutinises the accuracy and completeness of works schedule data relied upon when funding Auslink Roads to Recovery projects.

**DOTARS Response:** Agreed.

**Recommendation No.6** ANAO *recommends* that, to promote equity and transparency, DOTARS document and provide to Local Government Authorities the criteria that are to be used

**Para 4.11**

in exercising any Departmental discretion in reallocating any underspent Auslink Roads to Recovery annual allocations between Local Government Authorities.

**DOTARS Response:** Agreed.

**Recommendation No.7** ANAO *recommends* that, where Local Government Authorities have received their final Auslink Roads to Recovery payment, DOTARS promote the achievement of Program outcomes and protect the Commonwealth's financial interests by:

**Para 4.77**

- (a) implementing effective follow-up procedures where reports on the use of Roads to Recovery funds are not provided in a timely manner, or not provided at all; and
- (b) considering the merits of recovering some or all of the funding where the funds have not been spent within the prescribed period of time.

**DOTARS Response:** Agreed.

**Recommendation  
No.8  
Para 4.85**

ANAO *recommends* that DOTARS address the risks and costs of paying Local Government Authorities in advance of their needs, or of funds not being used by Local Government Authorities in a timely manner, by:

- (a) introducing systems and procedures for the efficient and timely analysis of all Quarterly Reports and R2R Annual Reports submitted by each Local Government Authority prior to making Auslink Roads to Recovery payments so as to better match payments to Local Government Authority cash flow needs; and
- (b) amending the Auslink Roads to Recovery Funding Conditions so that local government is neither penalised nor receives a financial advantage from legitimate delays in using Roads to Recovery funds by requiring Local Government Authorities to either:
  - (i) calculate interest from the date of receipt until funds are spent using a predetermined interest rate, with this amount required to be spent on roadworks; or
  - (ii) deposit the funds in a separate bank account until used with all interest earned required to be spent on roadworks.

**DOTARS Response:** Agreed.

**Recommendation  
No.9  
Para 5.29**

ANAO *recommends* that DOTARS develop and implement effective binding funding conditions for Auslink Roads to Recovery projects funded and accounted for through an intermediary (as opposed to direct with a Local Government Authority) including:

- (a) more closely aligning payments to expenditure on road works; and
- (b) clearer lines of accountability for reporting on the use of funds and the outcomes achieved.

**DOTARS Response:** Agreed.

**Recommendation  
No.10  
Para 5.62**

ANAO *recommends* that DOTARS enhance accountability and address risks relating to Local Government Authorities not undertaking Auslink Roads to Recovery Special Projects, or using the funds on other works, by:

- (a) requiring Local Government Authorities that receive funds for Special Projects to clearly identify in their works schedules and Quarterly Reports that the project is being funded by a tied grant so as to discriminate these projects from those chosen by LGAs using their untied funds;
- (b) analysing works schedules, Roads to Recovery Quarterly Reports and Annual Reports to identify any Local Government Authorities that have not undertaken, or do not propose to undertake, one or more Special Projects approved by the Australian Government;
- (c) reducing the total Auslink Roads to Recovery payments made to relevant Local Government Authorities by the amount of any approved Special Project where the relevant Local Government Authority has not undertaken, or does not propose to undertake, one or more Special Projects;
- (d) requiring transparent accounting for Special Project funds that are paid to Local Government Authorities including, as appropriate, holding these amounts separate to other funds; and
- (e) when assessing any future requests from Local Government Authorities to reallocate unspent Special Project funds to other works, identifying any other Local Government Authorities that have insufficient funds available to complete their Special Projects and giving consideration to the merits of surplus Special Project funds being reallocated to complete work on other Special Projects.

**DOTARS Response:** Agreed to parts (a), (b), (c) and (e); agreed with qualification to part (d).

# **Audit Findings and Conclusions**





# 1. Introduction

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*This chapter includes an outline of the Roads to Recovery Program and describes the audit objectives and approach.*

## Background

**1.1** Roads to Recovery is an administered programme within Outcome 1 (“A better transport system for Australia”) of the Department of Transport and Regional Services (DOTARS). Roads to Recovery is the largest investment in local roads ever undertaken by an Australian Government. In total, over eight years, \$2.66 billion<sup>16</sup> is to be paid to local government for expenditure on the construction, upgrade and/or maintenance of roads.

**1.2** There have been two Roads to Recovery Programs. The initial Program commenced in early 2001 as a single intervention to address the problem that much of local government road infrastructure was about to reach the end of its economic life and its replacement was beyond the capacity of local government.<sup>17</sup>

**1.3** A second four-year Program commenced in July 2005, as part of the Auslink land transport initiative.<sup>18</sup> It is the initial Roads to Recovery (R2R) Program that is the subject of this performance audit.

**1.4** The focus of the Program is the renewal of local roads to meet social and economic needs.<sup>19</sup> Most of the funds are provided in the form of grants direct to Local Government Authorities (LGAs). After an initial period of about a year when nine staff were involved, these grants, together with other aspects of the Program, were administered by a manager and three full time staff in the Auslink Systems and Regional Investment Branch within the Canberra offices of DOTARS. DOTARS advised ANAO in December 2005 that the small number of staff reflected the Government’s policy of ‘arms length’ administration of the Program.

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<sup>16</sup> For the composition of the \$2.66 billion see Table 1.1 for the initial R2R Program and Table 1.3 for the Auslink Roads to Recovery Program.

<sup>17</sup> Commonwealth Department of Transport and Regional Services and the Australian Local Government Association, *Report on the Roads to Recovery Programme*, February 2003, Introduction, p. 2.

<sup>18</sup> With effect from 1 July 2004, the Australian Government introduced a new approach to planning, funding and delivering land transport infrastructure. This approach is known as Auslink. DOTARS’ website states that ‘Auslink is the Australian Government’s policy for improved planning and accelerated development of Australia’s land transport infrastructure. It will revolutionise the planning and funding of Australia’s national roads, railways and inter-modal terminals by taking a long-term, strategic approach to future needs.’

<sup>19</sup> *Roads to Recovery Programme Annual Report 2003–2004*, p.1; also noted in the R2R Program Guidelines, Part A, clause 1, first paragraph.

1.5 DOTARS advised ANAO in December 2005 that it was not the Government's intention that the Department closely oversight LGA operations. Instead, the obligation to meet the Program Funding Conditions was placed with LGAs, including through annual reporting and funding acquittal processes. DOTARS further advised that the R2R Act was framed around the following Program delivery decisions made by the Government:

- funds were to be paid directly to LGAs;
- project priorities were the choice of LGAs; and
- the process by which grants were paid to the LGAs was to be simple, with appropriate audit and accountability systems and arrangements put in place to ensure that there is due recognition by LGAs of the Commonwealth's contribution to local road projects.

## Initial Roads to Recovery Program (R2R)

1.6 The R2R Program followed concerns raised by local government at the inaugural national roads congress held at Moree in New South Wales in March 2000.<sup>20</sup> The initial Program was established by the *Roads to Recovery Act 2000* (R2R Act). The full title of the Act is 'An Act to provide funding to supplement expenditure on roads'. Its main object 'is to provide \$1,200,000,000 for roads expenditure by local governing bodies'.

1.7 The R2R Act provided a Special Appropriation for payments to funding recipients identified in a list tabled in the House of Representatives.<sup>21</sup> The Act specified that the payments to funding recipients must be made before 1 July 2005. Additional funds for unincorporated areas and the Indian Ocean Territories were provided through Annual Appropriations. Table 1.1 summarises reported expenditure under the initial R2R Program as at 30 June 2005.

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<sup>20</sup> *Roads to Recovery Programme Annual Report 2002–2003*, p. 1.

<sup>21</sup> The names set out in the tabled list were not necessarily the correct legal names of the funding recipients. A list was subsequently published in the *Gazette* to substitute the correct legal names of the funding recipients.

**Table 1.1****Reported Commonwealth expenditure under the initial R2R Program**

	2000–01 (\$'000)	2001–02 (\$'000)	2002–03 (\$'000)	2003–04 (\$'000)	2004–05 (\$'000)	Total (\$'000)
<b>Special Appropriation:</b>						
R2R Act	150,000	300,000	200,000	300,000	249,922 <sup>A</sup>	<b>1,199,922</b>
<b>Annual Appropriations<sup>B</sup>:</b>						
Indian Ocean Territories		158	158	160	159	<b>636</b>
SA unincorporated		999	1,000	1,001	1,000	<b>4,000</b>
NSW unincorporated (including Lord Howe Island)		950	950	950	950	<b>3,800</b>
VIC unincorporated		50	50	50	50	<b>200</b>
NT unincorporated					1,000	<b>1,000</b>
<b>TOTAL</b>	<b>150,000</b>	<b>302,157</b>	<b>202,158</b>	<b>302,161</b>	<b>253,081</b>	<b>1,209,558</b>
Note:						
<sup>A</sup> See paragraphs 3.14 to 3.18.						
<sup>B</sup> Unincorporated areas are areas with no local council.						

Source: ANAO analysis of DOTARS data.

**1.8** It was recognised at the time the initial R2R Program was being implemented that the payment of funds direct to local government (rather than through the States and Territories) placed an onus on DOTARS to ensure the funds were spent on roads, and that the funds were properly accounted for. This was seen to represent a new and substantial area of responsibility for DOTARS.<sup>22</sup> However, DOTARS was not provided with additional budget funding to administer the initial R2R Program.

## Basis of allocations

### *Financial Assistance Grants*

**1.9** The R2R Program runs in parallel with Financial Assistance Grants (FAGs) provided under the *Local Government (Financial Assistance) Act 1995*.<sup>23</sup> FAGs are provided in the form of untied general purpose assistance and 'identified' but untied local road funding. The general purpose grants are

<sup>22</sup> Further, there was a recognised need for DOTARS to inform itself about LGA work programs, monitor and audit expenditure progress and ensure Members of the Parliament had maximum opportunities for Commonwealth recognition.

<sup>23</sup> In light of the States' constitutional responsibilities for local government, the Commonwealth grants are provided through the States as Specific Purpose Payments. For the purposes of the Local Government (Financial Assistance) Act, unless otherwise specified, the term State includes the Australian Capital Territory and the Northern Territory.

distributed between the States on a per capita basis. The roads grants are distributed between the States on a fixed share basis.

**1.10** The Local Government (Financial Assistance) Act requires National Principles to be formulated in consultation with State Ministers and a body or bodies representative of local government to govern the distribution of grants within each State. The National Principles came into effect from 1996–97 and apply to both grant components. The National Principle applying to the identified road component requires distribution on the basis of road expenditure needs, including consideration of factors such as length, type and use of roads.

**1.11** Local Government Grants Commissions established within each State and the Northern Territory, determine individual council allocations in accordance with the National Principles. Each State and the Northern Territory has its own methodology for calculation. These calculations for the identified local roads grants consider several factors that usually include population, road lengths, bridge length, topography and/or rainfall. After the Grants Commissions have determined the grant distribution, the State Minister recommends the allocation to the Commonwealth Minister for approval. In 2005–06, FAGs identified for local roads will provide payments to councils for local roads of about \$497 million.

**1.12** The recommendations for the intrastate allocation of the local roads FAGs for 2000–2001 were used as the basis of the initial calculation for the R2R funding allocations.

#### *Interstate Distribution of R2R funding*

**1.13** The distribution of R2R funds between the States and Territories was determined at the Ministerial level. The Government considered that no single factor or a combination of factors provided a satisfactory distribution. In arriving at the actual distribution, consideration was given to:

- the historical results from using the FAGs identified for local roads; and
- population and length of road under the control of the local government, with each of these two statistics weighted equally.

**1.14** Consideration was also given to the long standing concern of South Australia that it received a disproportionately low level of funding under the FAGs identified for local roads.

**1.15** Table 1.2 summarises the major data considered in developing the distribution, as well as the actual final distribution of funds.

Table 1.2

## State distribution of \$1.2 billion – Initial R2R Program

State	FAGs identified for Roads (estimated for 2000–01) <sup>A</sup>		50%:50% population: road length <sup>B</sup>		Roads to Recovery Actual Distribution	
	\$m	%	\$m	%	\$m	%
NSW	348.2	29.0	336.9	28.1	340.0	28.3
VIC	247.4	20.6	268.3	22.4	250.0	20.8
QLD	224.8	18.7	247.0	20.6	250.0	20.8
WA	183.5	15.3	173.2	14.4	180.0	15.0
SA	65.9	5.5	117.0	9.8	100.0	8.3
TAS	63.6	5.3	28.1	2.3	40.0	3.3
NT	28.1	2.3	17.9	1.5	20.0	1.7
ACT	38.5	3.2	11.6	1.0	20.0	1.7
<b>TOTALS</b>	<b>1,200</b>	<b>100</b>	<b>1,200</b>	<b>100</b>	<b>1,200</b>	<b>100</b>

Notes:  
<sup>A</sup> Dollar figures from Local Government National Report, 1999–2000 Report on the Operation of the Local Government (Financial Assistance) Act 1995, Table 3.3 p. 29, proportionately adjusted to be out of \$1.2 billion.  
<sup>B</sup> Calculation for these numbers located in DOTARS documentation.

Source: ANAO analysis of DOTARS data.

### Intrastate Distribution

**1.16** The allocation of funds within each State was determined using the formula applied by State Grants Commissions for the FAGs identified for local roads. Therefore, in order to be a funding recipient, LGAs needed to be eligible for a local roads FAGs payment in the estimated 2000–01 payment calculations. Also, in line with the arrangements for local roads FAGs:

- in Western Australia (WA), \$12.6 million, or 7 per cent of the R2R Program funding for the State was held back from LGAs for bridges and Aboriginal access roads; and
- in South Australia (SA), \$15 million, or 15 per cent of the R2R Program funding for the State was held back from LGAs for distribution in connection with the State's Special Local Roads Program.

**1.17** Allocations to individual funding recipients were set in a list tabled at the time of the R2R Act being presented to the Parliament. The R2R Administrative Guidelines<sup>24</sup> stated that each LGA was guaranteed its full life of program allocation by 30 June 2005, subject to the submission of satisfactory

<sup>24</sup> Published under section 11 of the R2R Act.

documentation such as works schedules and Quarterly and Annual Reports.<sup>25</sup> Section 8 of the R2R Act addressed the issue of replacement funding recipients where a funding recipient ceased to exist before it had received the full amount payable to it. This applied, for example, where LGAs were amalgamated or abolished.

## **Unincorporated areas and the Indian Ocean Territories**

**1.18** The Indian Ocean Territories (IOTs) of Christmas and Cocos (Keeling) Islands were outside the Local Government Grants Commission arrangements, as were the unincorporated areas of SA, Victoria and New South Wales (NSW). Unincorporated areas are areas where there is no local council. In these areas, the State Government performs the functions that would normally be undertaken by LGAs. As the R2R allocations were based on those entities in receipt of FAGs identified for roads, those local government areas outside these arrangements were not eligible for funding under the R2R Program.

**1.19** On 6 April 2001, the then Minister for Transport and Regional Services announced the Government's decision to provide an additional \$8 million in R2R funds over the four year life of the Program for unincorporated areas in SA (\$4 million), Victoria (\$0.2 million) and NSW (\$3.8 million).<sup>26</sup> The Government decided that the State roads authorities would be the recipient of the additional R2R funding and, consequently, should abide by the same conditions and guidelines of the R2R Program as LGAs. No additional funding was provided for the Northern Territory unincorporated area, as it was considered at that time that the allocation of \$1.37 million to the Local Government Association of Northern Territory (LGANT) covered this requirement.

**1.20** On 1 May 2001, the then Minister for Regional Services, Territories and Local Government announced that Christmas Island would receive \$452,827 and Cocos (Keeling) Island \$183,326 over four years.<sup>27</sup> The then Minister also announced that the respective Territory administrations would need to lodge details of their proposed works in the same way as LGAs in order to receive their R2R funds.

**1.21** In April 2004, the Government announced that it would provide an additional \$1 million in 2004–05 to the Northern Territory for local roads in

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<sup>25</sup> The average allocation was \$1.64 million and the median was \$1.26 million.

<sup>26</sup> John Anderson Deputy Prime Minister, Minister for Transport and Regional Services, Leader of the National Party, Media Release A52/2001: *Roads to Recovery Programme funding for unincorporated areas*, 6 April 2001.

<sup>27</sup> Senator the Hon. Ian McDonald, Minister for Regional Services, Territories and Local Government, media Release M112/2001: *Christmas and Cocos Islands on the Road to Recovery*, 1 May 2001.

unincorporated areas.<sup>28</sup> The funding was provided on the basis that the funds were to be spent in accordance with the R2R Administrative Guidelines.

## Auslink Roads to Recovery Program

**1.22** In January 2004, the Australian Government announced that a further \$1.2 billion would be provided over the four years from July 2005 to June 2009. Of this amount, \$800 million was to be allocated to local government on much the same basis as the current program. The remaining \$400 million was earmarked to support local land transport projects of regional economic and social significance.<sup>29</sup>

**1.23** In its Election 2004 Policy 'Local Government—Building on Our Relationship' the Coalition announced that the full \$1.2 billion would be provided to local councils on the same basis as the initial R2R Program. Also, an extra \$150 million would be provided for roads in unincorporated areas (\$30 million) and strategic roads (\$120 million).<sup>30</sup> This announcement was also made in the transport policy statement, 'Building Our National Transport Future', issued 15 September 2004.

**1.24** As foreshadowed in the Auslink White Paper, the distribution of funds within each jurisdiction to each LGA again followed the recommendations of the Local Government Grants Commissions for allocating the local roads component of FAGs. In his May 2005 Budget Media Release, the then Minister for Transport and Regional Services stated that 'the original Roads to Recovery Program was based on the commissions' 2000–01 assessments, which are out of date and do not reflect the current needs of Australia's councils'.<sup>31</sup> Accordingly, the Auslink Roads to Recovery funding allocations used the Grants Commissions' recommendations for 2004–05.

**1.25** In July 2005, under Part 8 of the *Auslink (National Land Transport) Act 2005*, the Auslink Roads to Recovery Program was established. Unlike the R2R Act, this Act does not specify how much funding is to be provided under the Auslink Roads to Recovery Program. However, a legislative instrument has been made that specifies the amounts of Commonwealth funding to be provided under the Auslink Roads to Recovery Program.<sup>32</sup> The instrument also

<sup>28</sup> *Roads to Recovery Annual Report 2003–2004*, p. 6.

<sup>29</sup> Auslink White Paper, pp. 77 and 82.

<sup>30</sup> The Howard Government Election 2004 Policy, *Local Government – Building on our Relationship*, pp. 5–6.

<sup>31</sup> Budget 2005–06 Media Release John Anderson, Deputy Prime Minister, Minister for Transport and Regional Services, Leader of the Nationals, *Building the Future of our Local Roads*, TRS12/Budget, 10 May 2005.

<sup>32</sup> Federal Register of Legislative Instruments F2005L02286., Determination of the Auslink Roads to Recovery List pursuant to section 87 of the *Auslink (National Land Transport) Act 2005*, 2 August 2005.

specifies the names of the persons or bodies that are to receive amounts totalling \$1.23 billion. This comprises the \$1.2 billion for grants payments to local government together with \$30 million for unincorporated areas. The legislative instrument does not address the recipients of the strategic roads component of the Program.

**1.26** The total budgeted and forward estimates for the Auslink Roads to Recovery Program are reported in the Portfolio Budget Statements (PBS) 2005–06 for the Transport and Regional Services Portfolio.<sup>33</sup> The Auslink Roads to Recovery Program is identified in the 2005–06 PBS as an Administered Program, funded as part of DOTARS' administered annual appropriation for Outcome 1: A better transport system for Australia. Table 1.3 provides a breakdown of the total budgeted allocations for the Auslink Roads to Recovery Program.

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<sup>33</sup> The purpose of the 2005–06 Portfolio Budget Statements (PBS) is to inform Senators and Members of Parliament of the proposed allocation of resources to Government Outcomes by agencies within the portfolio. A key role of the PBS is to facilitate the understanding of proposed annual appropriations in Appropriation Bills No.1 and No.2 2005–06. In this sense, the PBS are officially Budget Related Papers and are declared by the Appropriation Bills to be 'relevant documents' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.



**Table 1.3****Total budgeted allocations for the Auslink Roads to Recovery Program<sup>A</sup>**

	2005–06 Budget Estimate (\$'000)	2006–07 Forward Estimate (\$'000)	2007–08 Forward Estimate (\$'000)	2008–09 Forward Estimate (\$'000)	Total (\$'000)
Auslink Roads to Recovery – formula component	300,000	300,000	300,000	300,000	<b>1,200,000</b>
Indian Ocean Territories	159	159	159	159	<b>636</b>
SA unincorporated	2,696	2,696	2,696	2,696	<b>10,785</b>
NSW unincorporated (including Lord Howe)	629	629	629	629	<b>2,515</b>
VIC unincorporated	16	16	16	16	<b>64</b>
NT unincorporated	4,000	4,000	4,000	4,000	<b>16,000</b>
Strategic component <sup>B</sup>	16,500	46,500	29,500	27,500	<b>120,000</b>
<b>Total</b>	<b>324,000</b>	<b>354,000</b>	<b>337,000</b>	<b>335,000</b>	<b>1,350,000</b>

Note:

<sup>A</sup> The total of the amounts identified in the DOTARS' PBS was \$6,430,000 less than the \$1.35 billion announced by the Government. In December 2005, DOTARS advised ANAO that the \$6.43 million was allocated for the Strategic Regional Program in 2004–05. It was unpaid and carried forward and later reallocated (within the Program) with a revised expenditure profile.

<sup>B</sup> These figures predate the announcement on 10 November 2005 of an additional \$100 million for the Strategic Regional Program. See The Hon. Jim Lloyd MP, Minister for Local Government, Territories and Roads, Media Release L131 05, *Auslink Strategic Regional Programme Funding Increased*, 10 November 2005.

Source: ANAO analysis of data in PBS and John Anderson, Deputy Prime Minister, Minister for Transport and Regional Services, Leader of the Nationals, Budget 2005–06 Media Release TRS12/Budget: *Building the Future of our Local Roads*, 10 May 2005 and advice from DOTARS (in relation to the Strategic component).

## Internal reviews

**1.27** Over the life of the initial R2R Program two reviews were undertaken on the operation of the program. The first review was a joint review prepared by DOTARS and the Australian Local Government Association (ALGA), and published in February 2003. The second review was an Internal Audit undertaken by DOTARS. This review resulted in a report being issued to the Department in December 2004.

### Joint review by DOTARS and ALGA

**1.28** The R2R Program was of such importance to local government that ALGA, in association with its member associations, conducted a campaign

during 2002 and 2003 to have R2R renewed beyond June 2005.<sup>34</sup> According to ALGA, the key step was a review conducted jointly by ALGA and DOTARS to assess the first two years of the R2R Program.<sup>35</sup> The Commonwealth paid \$150 000 to ALGA for its work on this review. DOTARS advised ANAO in October 2005 that ALGA distributed most of this money to consultants who worked on the review and that it was not a fee paid to ALGA for its services.

**1.29** The review was announced by the Federal Minister for Transport and Regional services in response to requests from local government for the program to be continued beyond 2005. The joint review team was asked to answer the question 'have the funds already provided to councils under *Roads to Recovery* been well used?'

**1.30** The review report stated that the work undertaken involved collecting and analysing data from a number of sources to provide an insight into the projects that LGAs funded through the R2R Program. The review team used data provided by LGAs to DOTARS when registering their projects and information on the payments made to LGAs by DOTARS under the Program. Additional data was also collected from two main sources, namely a national survey of all LGAs with an email address (approximately 600), and an in-depth study of a smaller number of LGAs to study what each LGA did with their funding and why. The review report states that 279 LGAs responded to the survey.

**1.31** The key finding of this joint review was:

the *Roads to Recovery* funds have generally been well used in ways consistent with the intention of the programme, ie to address the backlog of works on the local road system that have built up over time. However, notwithstanding the contribution the *Roads to Recovery* funding has made, there remain deficiencies both in terms of the existing road system and the need to upgrade and in some cases extend it.<sup>36</sup>

**1.32** ALGA has stated that, given the Review's clear endorsement of the Program, it coordinated a national campaign to renew R2R.<sup>37</sup> This included assisting and encouraging LGAs to write to their local members as well as to relevant Ministers.

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<sup>34</sup> ALGA, *Renew Roads to Recovery (R2R) campaign* at <[www.alga.asn.au/policy/transport/r2r/r2rcampaign.php](http://www.alga.asn.au/policy/transport/r2r/r2rcampaign.php)>.

<sup>35</sup> *ibid.*

<sup>36</sup> Commonwealth Department of Transport and Regional Services and the Australian Local Government Association, *Report on the Roads to Recovery Programme*, February 2003, Chapter 15: Conclusion, p. 42.

<sup>37</sup> ALGA, *Renew Roads to Recovery (R2R) campaign* at <[www.alga.asn.au/policy/transport/r2r/r2rcampaign.php](http://www.alga.asn.au/policy/transport/r2r/r2rcampaign.php)>.

## Internal audit

**1.33** The DOTARS internal audit plan for 2004–05 included a ‘Roads to Recovery Review’. DOTARS considered an Internal Audit review timely due to the additional \$1.2 billion that had been announced as part of Auslink. The key objectives of the review were to:

- review compliance against the R2R procedures and administrative requirements (as per the R2R Act); and
- ensure adequate ongoing administration (that is, ‘business as usual’) during the significant change associated with Auslink.

**1.34** DOTARS’ outsourced internal audit provider conducted this Internal Audit review in August and September 2004. A draft report was provided to DOTARS in November 2004 followed by the final report in December 2004. The cost of the review was \$14,236. The internal audit report states the following tasks were performed:

- significant business processes for program administration were documented;
- program guidelines were reviewed and current procedures were assessed as to whether they meet the guidelines;
- the appropriateness of procedure documentation was considered;
- an understanding of DOTARS’ risk profile was developed;
- risks were identified and the suitability of the control framework was assessed; and
- a sample of transactions was tested to ensure compliance with key R2R processes.

**1.35** The December 2004 final report included four key findings. These comprised three positive findings and one area for improvement, as illustrated in Table 1.4. The final report noted that DOTARS agreed with the positive findings and would take action to improve IT security controls. In terms of the review objectives, the overall conclusions reached were as follows.

[Internal audit] found no evidence to suggest that the Department is not complying with the requirements of the Roads to Recovery Act.

The risks associated with the Roads to Recovery programme appear to have been identified and appear to be proactively managed through appropriate control strategies.

**Table 1.4**

**Internal Audit Review: Key findings from December 2004 Report**

Category of Finding	Findings
<b>Positive Findings:</b>	R2R is a well established program which has been in place for a number of years. The majority of risks have either specific and/or mitigating controls in place
	The R2R team are following all guidelines established to support the program
	Procedures documentation appears to be appropriate. There is a procedural manual to support the use of DOTARS' R2R system and detailed program guidelines to assist the R2R team. These guidelines are provided to each local council
<b>Areas for Improvement:</b>	
One of DOTARS' extreme or high business risks not suitably controlled	None noted
One of DOTARS' moderate business risks has not been suitably controlled	None noted
Management issues to be raised and discussed, but not seen to be of consequence from a residual risk perspective	Improving security controls surrounding the R2R IT system
Business Improvement Recommendation	None noted

Source: ANAO analysis of DOTARS data.

## The ANAO performance audit

**1.36** ANAO's 2004–05 Audit Work Program included a potential performance audit titled Commonwealth Road Funding.<sup>38</sup> In view of the probability of substantial changes to the major road funding programs under Auslink, DOTARS suggested to ANAO that this proposed audit be postponed. However, acknowledging the sizeable budget allocations for roads and the importance of proper administration of roads programs, DOTARS suggested that an audit of the R2R Program would be more valuable.

**1.37** ANAO accepted DOTARS' suggestion. As a result, the scope of the proposed Commonwealth Road Funding audit was refined to focus on the R2R Program. It is intended to examine other aspects of Auslink in future performance audits.

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<sup>38</sup> ANAO, *Audit Work Program 2004–2005*, July 2004, pp. 99–100.

## Audit objectives

**1.38** This performance audit was conducted under section 15 of the *Auditor-General Act 1997*. Its objectives were to:

- assess the efficiency and effectiveness of the management of the initial R2R Program; and
- identify any opportunities for improvements to management of the Program.

## Audit scope

**1.39** The audit scope covered development of the R2R Program, management of the initial R2R Program and changes made to the Program funding conditions and administrative guidance to LGAs for Auslink Roads to Recovery. The scope did not include the management of Auslink Roads to Recovery.

**1.40** Analysis of the Auslink Roads to Recovery governance documents was necessary in order that audit recommendations were not made where governance framework issues have already been addressed by DOTARS. In this respect, DOTARS and ANAO met on a number of occasions to discuss the preliminary audit findings in order that DOTARS could address some of the audit findings in its development of the Auslink Roads to Recovery Funding Conditions and Notes on Administration. In February 2006, DOTARS advised ANAO that it was also undergoing continuous improvement and had been reviewing the previous funding conditions in light of experience with the program. The changes made by DOTARS are recognised and acknowledged throughout the report.

## Audit approach

**1.41** The audit commenced in February 2005. Audit fieldwork was undertaken between February 2005 and August 2005. Various issues were raised and discussed with DOTARS during the fieldwork phase. Issues Papers were provided to DOTARS between September and November 2005. A consolidated Issues Paper was provided to DOTARS in December 2005. The purpose of the Issues Papers was to outline, for discussion and clarification purposes, the preliminary audit findings.

**1.42** The audit work involved a number of aspects, most particularly:

- examination of DOTARS records and discussions with DOTARS officers responsible for administering the R2R Program;
- site visits to a total of 408 R2R projects across a representative sample of 93 LGAs, together with analysis of reports and certifications provided

to DOTARS by these LGAs in relation to all their R2R projects and expenditure;

- analysis of changes made to the governance arrangements for Auslink Roads to Recovery; and
- analysis of the management of special allocations for SA and WA, including:
  - fieldwork (including examination of records) at the South Australian Local Government Grants Commission (which administered payments to 35 individual LGAs and six regional associations<sup>39</sup> that received funds under the SA Special Allocation). ANAO also analysed the R2R reporting by both the Grants Commission and relevant LGAs. The site visits mentioned above included three projects funded by the SA Special Allocation; and
  - analysis of R2R reporting by each of the 29 LGAs that received funds from the WA Special Allocation. Of the 97 approved WA Special Projects, seven were included in the 408 audit site visits.

**1.43** The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$545,000.

#### *The representative sample of LGAs*

**1.44** R2R funds were provided to LGAs for expenditure on the construction, upgrade and/or maintenance of roads. Accordingly, a key part of the audit approach involved examination of the use of, and accountability for, R2R funds by a representative sample of LGAs from around Australia. In this context, section 11 of the R2R *Conditions Applying to Payments* provides as follows:

An LGA must, on request, allow Australian Public Service employees or persons nominated by the Commonwealth, to inspect documents in relation to the Roads to Recovery Programme including but not limited to documents related to:

- a) works funded under the Act; and
- b) the level of expenditure on roads funded otherwise than under the Act.

**1.45** To develop a representative sample of LGAs for audit examination, two common sampling methods were employed; stratified sampling and systematic sampling. The sampling approach used the Australian

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<sup>39</sup> These associations represented a number of LGAs working together to develop regional plans of strategic road networks.

Classification of Local Governments (ACLG)<sup>40</sup> to categorise LGAs. At least 10 per cent of each of the 22 ACLG categories were included in the audit sample so as to ensure the sample was representative of the various types of LGAs. LGAs were included from every State and Territory except the Australian Capital Territory.

**1.46** The result of the sampling exercise was that ANAO examined 93 LGAs (see Appendix 1). This represents more than one in every eight LGAs that received R2R payments (see Table 1.5). This provided ANAO with comprehensive coverage of the delivery of the R2R Program by LGAs.

**Table 1.5**

**ANAO representative sample of LGAs by State/Territory**

State/Territory	Number of LGAs	R2R Allocation (\$)
New South Wales	20	35,934,817
Northern Territory	8	4,778,062
Queensland	21	73,308,904
South Australia	8	13,343,826
Tasmania	8	12,854,660
Victoria	12	38,321,719
Western Australia	16	25,364,250
<b>Sample Total</b>	<b>93</b>	<b>203,906,238</b>
R2R Total	726	1,200,000,000
<b>Audit Sample Coverage</b>	<b>12.8%</b>	<b>17.0%</b>

Source: ANAO analysis of DOTARS data.

**1.47** Each LGA selected in the audit sample was formally advised by ANAO of the performance audit, its objectives and scope. Each LGA was also advised of the identity of a selection of individual R2R projects that ANAO intended to examine. LGAs were invited to contact ANAO if they wished to be involved in

<sup>40</sup> Bodies declared by the Commonwealth Minister on the advice of the State Minister to be local governing bodies for the purposes of the Local Government (Financial Assistance) Act are included in the ACLG. While the Local Government Grants Commissions do not take into consideration the ACLG classification in determining the level of general purpose grants, it is used in the annual report on the operation of the *Local Government (Financial Assistance) Act 1995* prepared by the National Office of Local Government to help compare grant outcomes across councils. ANAO used the classification of the funding recipient at the commencement of the R2R Program, as reported in the 2000–01 Local Government National Report.

the site inspections. They were also asked to provide ANAO with certain documentation.<sup>41</sup>

**1.48** ANAO's examination of the sample of LGAs involved a number of aspects, as follows:

- Site visits were conducted on the selected R2R projects located within the LGA. In total, 408 projects were examined. The site visits involved a visual examination of the project and, if applicable, associated R2R signage. Measurements were taken, if relevant to the project, of the length and width of the applicable work. Photographs were also taken of the works. ANAO did not conduct testing on the structure or composition of the road surface.
- Analysis of available documentation including the R2R works schedule, R2R Quarterly Reports and R2R Annual Reports submitted by the LGA. This analysis examined issues such as the reliability of expenditure forecasts, whether the LGA had been paid in advance of its needs (with a consequential financial benefit to the LGA at the expense of the Australian Government) and inconsistencies and anomalies within and between the various reports.
- Substantiation of the amounts charged to the R2R Program for each project against the project costing information provided to ANAO by the LGA. This included consideration of the eligibility of expenditure charged against the R2R project as well as any shortfalls between the amount charged and the costs actually incurred by the LGA.
- A comparison of the average level of expenditure between 1998–99 and 2000–01 to each LGA's expenditure on roads in 2000–01, 2001–02, 2002–03 and 2003–04. This was undertaken to assess whether the LGA had met the requirement that it maintain its own expenditure on roads at or above the 1998–99 to 2000–01 average.

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<sup>41</sup> This comprised:

- copies of Council's statutory audited financial statements for the period 1998–99 to 2003–04 inclusive. This information was sought to enable ANAO to assess whether the LGA had met the expenditure maintenance requirements of the R2R Program; and
- project-specific information concerning the selected R2R projects. This included information on the scope of works including specific reference (such as chainage) for each project and actual costs, including a detailed breakdown (such as reports from the LGA's financial management information system). This information was necessary for ANAO to inspect and analyse the selected works and substantiate the costs charged to the R2R program.



**1.49** ANAO provided each LGA included in the sample with details of the audit analysis and findings in respect of that LGA<sup>42</sup> and invited LGAs to provide any comments or information in relation to the analysis and findings. ANAO also offered to discuss the issues, or the audit more generally, with each LGA.

**1.50** On 30 September 2005, ALGA wrote to all LGAs urging them to give full consideration to the ANAO's invitation to comment. ALGA advised that:

It is essential that the report made to the Australian Parliament reflect the facts through your council exercising its right of reply, should your council have been the subject to an audit. A balanced report will not only be important to individual councils but equally vital to all of local government, including in the context of future representations that we will no doubt be making to the Commonwealth Government on road funding.

**1.51** Most LGAs provided a written response to ANAO and/or contacted ANAO to discuss the issues that had been identified.<sup>43</sup> Comments provided by LGAs, together with any additional documentation provided, were taken into account in preparing the report of this audit.

#### *Circulation of proposed report*

**1.52** The Proposed Report was provided to DOTARS in January 2006 under section 19 of the *Auditor-General Act 1997*. At the same time, LGAs mentioned in the report case studies, and those that had not previously been provided with an opportunity to comment, were provided with a copy of the case study or relevant extract for any comment they wished to make.

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<sup>42</sup> LGAs were advised by ANAO that the audit analysis and findings would assist to form the basis of ANAO's assessment of the management of the R2R Program. They were also advised that the audit work would culminate in a report tabled in the Commonwealth Parliament and that this report would be a public document.

<sup>43</sup> Prior to the ALGA letter, comments had already been received from the significant majority of LGAs in the representative sample.



## 2. Program Outcomes and Accountability

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*This chapter examines the major outcomes from the initial \$1.2 billion Roads to Recovery Program and discusses the primary accountability mechanisms for the Program. It also examines whether local government substituted Australian Government funds for its own expenditure on roads.*

### Payment of funds to local government

**2.1** Local government is not included in the legislative powers of the Commonwealth specified by section 51 of the Constitution. As a consequence, local government remains the responsibility of State governments. In this respect, local governments are established under State legislation and are subject to State government oversight.

**2.2** Nevertheless, since 1974–75, successive Australian governments have provided general purpose funding for local government through Specific Purpose Payments (SPPs) to the States and Territories.<sup>44</sup> SPPs are made under section 96 of the Constitution. This section provides that ‘the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament sees fit’.

**2.3** The current arrangements for providing SPPs to local governments are embodied in the Local Government (Financial Assistance) Act. This Act is administered by DOTARS. It requires<sup>45</sup> funds to be passed to local government without undue delay, in their entirety, and in accordance with allocations determined by the relevant State Grants Commission.

**2.4** In 2004–05, the Australian Government provided \$1.5 billion in FAGs to local government through the States and Territories.<sup>46</sup> In 2005–06, local government is expected to receive more than \$1.6 billion in FAGs.<sup>47</sup> This

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<sup>44</sup> Submission by the Department of the Treasury to the House of Representatives Standing Committee on Economics, Finance and Public Administration inquiry into local government and cost shifting, September 2002, p. 1.

<sup>45</sup> Sections 11, 14 and 15 of the Local Government (Financial Assistance) Act.

<sup>46</sup> DOTARS, *Annual Report 2004–05*, p. 141.

<sup>47</sup> *Building Stronger Communities 2005–06*, Statement by the Honourable John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services and the Honourable Jim Lloyd MP, Minister for Local Government, Territories and Roads and the Honourable John Cobb MP, Parliamentary Secretary to the Minister for Transport and Regional Services, 10 May 2005, p. 70.

amount comprises general purpose assistance of \$1.1 billion and 'identified' (but untied)<sup>48</sup>) local road grants of \$497 million.

**2.5** Unlike FAGs, most R2R funds were provided direct to local government.<sup>49</sup> In this context, when announcing the R2R Program with the then Minister for Transport and Regional Services, the Prime Minister stated that:<sup>50</sup>

Roads to Recovery funding of \$1.2 billion over 4 years represents a 75% increase in current Federal Government grants for local roads, which are \$406 million in 2000–01.

... One of the greatest strengths of the Roads to Recovery Program is that the funding will go direct to Local Government and allow councils to spend the money according to their priorities.

## Use of R2R funds

**2.6** In Australia, local government is responsible for planning, developing and maintaining a significant amount of the key infrastructure for its communities. This includes local roads, bridges and footpaths. In this respect, the 2003–04 Annual Report on the operation of the *Local Government (Financial Assistance) Act 1995* stated that:<sup>51</sup>

Local roads provide basic access from farms, factories and homes to schools, hospitals, work, shopping and to families and friends. Local roads are part of a network. They are vital feeder roads to the economically significant arterials and highways funded by Australian and State governments, so they are important to overall transport efficiency and to national economic performance.

**2.7** Of the nation's 810,000 kilometres of public roads, almost 650,000 kilometres (80 per cent) are local roads.<sup>52</sup> Approximately one-third of these

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<sup>48</sup> These grants are distributed on the basis of road expenditure needs (including consideration of factors such as length, type and use of roads) but the amounts paid may be used for any purpose, including on roads.

<sup>49</sup> A total of \$15 million of R2R funds was paid through the SALGGC to 35 LGAs and six regional associations for distribution as part of the broader South Australian Special Local Roads Program, administered by the SALGGC. In addition, some \$9.6 million was paid to those bodies, normally state road authorities, that administer the IOTs and unincorporated areas throughout Australia.

<sup>50</sup> The Hon John Howard, Prime Minister and the Hon John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services, *\$1.6 billion Investment in Roads*, Joint Media Release, 27 November 2000.

<sup>51</sup> DOTARS, *Local Government National Report: 2003–04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 75. The 2004–05 Report has not yet been presented to the Parliament.

<sup>52</sup> DOTARS, *Local Government National Report: 2003–04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 76.

roads are sealed with the remainder unsealed (unformed, formed or gravel roads).<sup>53</sup>

**2.8** When announcing the R2R Program with the Prime Minister, the then Minister for Transport and Regional Services' media release stated.<sup>54</sup>

Approximately \$850 million of the \$1.2 billion Roads to Recovery Program would be spent in rural and regional Australia, in recognition of the fact that this was where the need was greatest. A large number of urban fringe councils also had extensive rural road networks and they too would receive funding according to local priorities.

Mr Anderson said he was particularly delighted that the Federal Government was instigating the Roads to Recovery Program because it delivers on yet another of the priorities identified at the Regional Australia Summit. "There is no doubt that local road funding is a critical issue, especially in rural and regional Australia where much of the local road network was built in the 1950s and 1960s," Mr Anderson said. "I haven't been to a place in country Australia that cannot immediately identify roads that need fixing, be it to ensure all-weather access to the local town, allow the school bus to stop at a farm gate or strengthen the road base for heavy vehicle traffic," Mr Anderson said.

**2.9** In this context, the following photographs of a selection of projects inspected by ANAO as part of this audit illustrate how R2R projects were undertaken throughout Australia, from major cities to rural and remote locations.

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<sup>53</sup> DOTARS, *Local Government National Report: 2003–04 Report on the Operation of the Local Government (Financial Assistance) Act 1995*, p. 76.

<sup>54</sup> The Hon John Howard, Prime Minister and the Hon John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services, *\$1.6 billion Investment in Roads*, Joint Media Release, 27 November 2000.



Newcastle City Council, New South Wales: Project No.21: Hunter St Newcastle, Auckland St to Union St—Reconstruction of failed sections of concrete road pavement and resurfacing (\$169,000). Photo taken 14 April 2005.



Southern Midlands Council, Tasmania, Project No.53: Eldon Road Colebrook: construct and seal 1.65 kilometres (\$80,000). Photo taken 7 July 2005.



Tambo Shire Council, Queensland, Project No.7: Mt Playfair Road: bitumen sealing for 9 kilometres (\$167,000). Photo taken 2 June 2005.



Tumut Shire Council, New South Wales: Project No.1: Main Road 279 (Gocup Road) from Chainage 1.2km to 2.9km—Excessive horizontal/vertical curves/alignments, inadequate lane widths and poor pavement strength. Realign, reconstruct, widen (\$801,781). Photo taken 14 March 2005.

## Analysis of financial benefits and costs

**2.10** Between March 2001 and June 2005, more than \$1.2 billion was provided to local government for expenditure on the construction, upgrade and maintenance of roads. As part of the 2003 joint review of the initial R2R Program by DOTARS and ALGA, an indicative benefit cost analysis of some R2R projects was undertaken.<sup>55</sup>

**2.11** To undertake this analysis, data was provided by 41 LGAs<sup>56</sup> in relation to 98 road infrastructure improvement projects. Most (82 per cent) of the projects related to the sealing of unsealed roads and the rehabilitation, reconstruction or widening of sealed roads. The review report stated that indicative benefit cost analysis could not be conducted for a small number of projects as they required specific detailed research.<sup>57</sup> There was sufficient data available to conduct an indicative benefit cost analysis of 80 projects.

**2.12** The results of this analysis were that nearly half (49 per cent) of the projects evaluated yielded positive net present values at a 7 per cent real discount rate. The overall net present value estimated was \$36.9 million on the 80 projects. This equated to an overall benefit cost ratio of 1.8.

**2.13** The results of this analysis have been reported and relied upon in demonstrating the value of the Program. For example, the 2002–03 R2R Program Annual Report stated that:<sup>58</sup>

An analysis undertaken on a sample of projects showed that 20 per cent of all projects had a benefit-to-cost ratio exceeding 2.0, nearly 30 per cent exceeded 1.5 and 45 per cent exceeded 1. The average overall benefit-to-cost ratio of analysed projects was 1.8.

**2.14** Similarly, DOTARS' departmental 2003–04 Annual Report stated<sup>59</sup> that, on average, there is a return of \$1.80 in benefits for every \$1 invested under the Program. In addition, the Auslink Roads to Recovery brochure produced by DOTARS (and available from the DOTARS website) states that 'our evaluation shows councils are using the money wisely to generate returns worth \$1.80 for every dollar outlaid'.

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<sup>55</sup> Commonwealth Department of Transport and Regional Services and the Australian Local Government Association, *Report on the Roads to Recovery Programme*, February 2003, Chapter 10: Economic Analysis, pp. 31–32.

<sup>56</sup> These LGAs were those that chose to provide the review team with data. See page 3 of the joint review report.

<sup>57</sup> These included bridge replacement, gravel resheeting, causeway construction and interchange improvement projects.

<sup>58</sup> *Roads to Recovery Program Annual Report 2002–2003*, prepared pursuant to Section 10 of the R2R Act, p. 5.

<sup>59</sup> DOTARS, *Annual Report 2003–04*, p. 81.



**2.15** ANAO notes that neither the LGAs nor the projects were selected so as to be representative of the population of LGAs and/or R2R projects. In this respect, the cost of the projects examined was a small percentage of the total cost of the Program (2.8 per cent). The number of projects examined was an even smaller percentage of the total number of projects funded under the Program (0.5 per cent). Further, the analysis was acknowledged in the report as being 'indicative'. Accordingly, the results of this analysis must be used with some caution.

**2.16** In this context, DOTARS advised ANAO in December 2005 that:

It is accepted that the sample of councils and projects that participated in the 2003 joint review (with ALGA) of Roads to Recovery is not on the same scale as the ANAO audit. Documentation about the review was provided to all councils that attended the 2002 National Local Roads Congress and this was also provided by circular 2002/12 in August 2002. All councils were asked to participate and those that wished to be involved were used.

On engineering advice, it should be noted that, for small projects, it is often only possible to provide an indicative benefit cost ratio based on generic parameters. Other issues, such as the Australian Government's policy of assisting regional areas obtain regional standards for equity and social reasons, must also be considered.

**2.17** No further or more comprehensive benefit cost analysis has been commissioned by DOTARS since the 2003 joint review. In this context, given local government selected the projects to be undertaken using R2R Program funds, ANAO considers there should be some process by which DOTARS assesses whether the projects selected actually delivered value for money.

## Recommendation No.1

**2.18** ANAO *recommends* that, to assist to inform consideration of any further extension to the Roads to Recovery Program, prior to the end of the Auslink Roads to Recovery Program DOTARS conduct a benefit cost analysis of a representative sample of projects funded by the Australian Government.

### *DOTARS response*

**2.19** DOTARS agreed to the recommendation and commented that:

Appropriate analysis will be undertaken to inform the Government's consideration of the future of the program. The Department will also consider other relevant matters such as social issues in any consideration of the value of the program. ...Also, on engineering advice, it should also be noted that for small projects it is often only possible to provide an indicative BCR based on generic parameters eg sealing a road may be considered justified if the traffic volume exceed 'X' or annual maintenance costs more than '\$Y'.

## Accountability to the Parliament

**2.20** Accountability to the Parliament for the operation of the R2R Program was provided for in two main ways:

- similar to all Government programs, through performance indicators and performance reporting by DOTARS in its Portfolio Budget Statements (PBS) and Annual Reports; and
- by virtue of the requirements of the R2R Act, an Annual Program Report to the Parliament.

### DOTARS performance reporting

**2.21** The foundation for agency accountability and transparency is performance information presented initially in PBSs, with results being reported later in annual reports.<sup>60</sup> Effectiveness indicators are necessary to demonstrate the extent to which outputs and/or administered items make positive contributions to specified outcomes.<sup>61</sup> In addition, agencies are required by guidelines issued by the Department of Finance and Administration (Finance) to develop price, quantity and quality indicators for outputs to be reported in their PBS and annual reports.<sup>62</sup>

**2.22** In each year between 2001–02 and 2004–05, the Transport and Regional Services Portfolio PBS included effectiveness, quality, location and cost performance indicators for the R2R Program. The four indicators were:<sup>63</sup>

- effectiveness: improved local transport infrastructure supports economic growth and provides improved access to communities;
- quality: recipients comply with all Program conditions;
- location (or quantity): Australia wide and Indian Ocean Territories; and
- cost: \$302.2 million in 2001–02, \$202.2 million in 2002–03, \$302.2 million in 2003–05 and \$253.1 million in 2004–05.

**2.23** It is considered better practice to set targets for effectiveness indicators.<sup>64</sup> Targets provide a basis for performance assessment and, from an accountability perspective, help Parliament to assess if an agency is delivering what it set out to achieve.<sup>65</sup> Targets can also encourage agency performance.

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<sup>60</sup> ANAO Better Practice Guide, *Performance Information in Portfolio Budget Statements*, May 2002, p. 1.

<sup>61</sup> *ibid.*, p.17.

<sup>62</sup> *ibid.*, p.21.

<sup>63</sup> Some minor changes were made to effectiveness and quality indicators in the 2003–04 PBS.

<sup>64</sup> *Performance Information in Portfolio Budget Statements Better Practice Guide*, ANAO, May 2002, p. 25.

<sup>65</sup> *ibid.*, p. 24.

However, no estimates or targets were set for the R2R Program effectiveness indicator. On this issue, DOTARS commented to ANAO in December 2005 that funding was allocated via a set formula and LGAs determined how the money would be spent, and therefore the number and scope of projects to be undertaken.

**2.24** In departmental Annual Reports presented for the years 2000–01 to 2004–05 inclusive, DOTARS' reporting of actual performance consistently included information on how many LGAs had been paid their full allocation, total payments made as well as how LGAs were using the funds provided. However, little, if any, information was reported in any year as to whether recipients complied with the Program Conditions (that is, the quality indicator).<sup>66</sup>

## Annual Program Reports to the Parliament

**2.25** Section 10 of the R2R Act required that:

As soon as practicable after the end of each funding year, the Minister must cause a report to be tabled in each House of the Parliament on the operations of this Act during that funding year.

**2.26** Similarly, under section 94 of the Auslink (National Land Transport) Act, the Minister is required to table an Annual Report on the operation of that Act, including Part 8 which relates to the Auslink Roads to Recovery Program.

**2.27** As of December 2005, four R2R Program Annual Reports had been tabled in the Parliament. These were reports covering the 2000–01, 2001–02, 2002–03 and 2003–04 years. Each report was prepared for the Minister by DOTARS.

**2.28** The following table summarises when the Annual Reports were tabled in the House of Representatives and the Senate. It shows that there has been significant variability in the timeliness with which Annual Reports have been provided to the Parliament.

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<sup>66</sup> No information was included in the 2000–01, 2001–02 or 2002–03 Annual Reports on whether or not LGAs had complied with the Program Conditions. In 2003–04 and 2004–05, DOTARS reported that all LGAs had met the requirement to lodge audited financial statements. No comment was made about the level of compliance with any of the other Funding Conditions.

**Table 2.1****Timeliness of tabling of R2R Program Annual Reports**

Annual Report Year	House of Representatives	Senate
2000–01	13 March 2002 (8½ months)	19 March 2002 (8½ months)
2001–02	Same day: 15 October 2002 (3½ months)	
2002–03	Same day: 9 September 2003 (2 months)	
2003–04	Same day: 9 February 2005 (7 months)	
2004–05	Not yet tabled (>7 months)	

Source: ANAO analysis of House of Representatives Votes and Proceedings and Senate Journals.

**2.29** Each of the R2R Program Annual Reports provided the Parliament with a range of information on the operation of the Program, as follows:

- the inaugural report, for 2000–01, provided background details on the Program and its operation together with summary data on how the funds had been used and financial data on payments made to LGAs;
- the 2001–02 report also included background on the Program and its operation together with a number of financial tables outlining allocations and payments made to 30 June 2002 as well as identifying those LGAs that had been paid in full. The report also included a number of project case studies from the review, along with information on the joint review of the Program conducted by DOTARS and ALGA;
- the approach taken in the 2002–03 report was similar to that adopted for 2001–02 report, with updated financial data included within the report; and
- the key differences in the 2003–04 report compared to the two prior years were that case studies were not included and information was included on the Government’s announcement of an extension to the Program.

## Annual statement of accountability by funding recipients

**2.30** LGAs were required by the R2R Funding Conditions to submit Annual Reports to DOTARS covering their use of R2R funds. These reports comprised three parts:

- a financial statement outlining the amount of R2R funds brought forward from the previous year, the amount paid to the LGA in the year, the amount of R2R funds spent in the year and any amount carried forward to the next year. This section of the Annual Report was also required to include an auditor’s report stating the financial statement was based on, and was in agreement with, proper accounts

and records and the amount reported as spent was used solely on roads as defined in the R2R Act;

- a statement of accountability by the LGA's Chief Executive Officer that:
  - R2R funds had been used solely for roads expenditure as defined in the R2R Act;
  - the LGA had maintained expenditure from its own sources in the relevant year on roads at or above the average of the amounts spent on roads from these sources over the years 1998–99 to 2000–01;
  - the LGA had complied with the R2R signage and publicity requirements; and
  - the other conditions set out in the R2R Funding Conditions and Administrative Guidelines had been complied with; and
- a statement of key outcomes achieved with the R2R Program funds during the year.

**2.31** The Administrative Guidelines contained a proforma of the R2R Annual Report. It is illustrated in Appendix 2.

### **Submission of Annual Reports**

**2.32** The R2R Annual Reports were to be provided to DOTARS no later than 30 September each year.<sup>67</sup> In this context, for the 93 LGAs in ANAO's sample, Table 2.2 outlines the timeliness with which R2R Annual Reports were submitted to DOTARS in each year of the R2R Program. It shows that, in each year of the Program, a large proportion of Annual Reports were submitted late by LGAs.

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<sup>67</sup> For Auslink Roads to Recovery, the Annual Report due date has been extended to 31 October. This is to align with the payment cycle with the October quarterly reporting period ending on 31 October after which payment processing begins.

**Table 2.2****Date of Annual Report submitted to DOTARS (for ANAO's sample)**

	2000–01 (%)	2001–02 (%)	2002–03 (%)	2003–04 (%)	2004–05 (%)
Submitted by 30 September or next working day	28	20	25	32	31
Submitted late	72	80	75	68	69

Note: Where no cover letter was available, ANAO has used the latest date of certification. In the case of 2004–05 the submitted late percentage includes those Annual Reports not yet submitted to DOTARS as of 15 November 2005.

Source: ANAO analysis of DOTARS data.

**Accuracy of Annual Reports submitted by LGAs**

**2.33** DOTARS payment procedures required Departmental officers to satisfy themselves as to whether a satisfactory Annual Report had been received prior to making further payments to an LGA. In this context, of the 886 Quarterly Reports processed by DOTARS in relation to ANAO's sample of 93 LGAs, in 63 instances (7 per cent) payment was withheld from an LGA due to an R2R Annual Report not having been submitted. Up to the end of the first R2R Program on 30 June 2005, on only one instance did DOTARS make a payment when the required Annual Report had not been submitted.<sup>68</sup>

**2.34** Although payments were generally not made unless an Annual Report had been submitted, this did not mean that the Annual Reports were satisfactory. In this respect, DOTARS did not develop and document criteria by which it would assess whether or not Annual Reports submitted by LGAs were 'satisfactory'. On this issue, DOTARS advised ANAO that, initially, Annual Reports were not comprehensively checked but that this changed in 2003–04. DOTARS further advised that, by 2003–04, a satisfactory Annual Report was considered to be one where:

- the funds brought forward matched the carried forward figure in the previous Annual Report, or there was an adequate explanation for the difference;
- the amount reported as received in the year matched DOTARS' payment records;
- the total available for expenditure was the sum of the funds brought forward and the amount received; and

<sup>68</sup> Specifically, payment of \$238,065 to Jerramungup Shire Council (Western Australia) was made on 27 February 2003 but the Annual Report was not provided to DOTARS until 19 March 2003.

- the amount carried forward to the next year was calculated by subtracting expenditure reported from the sum of funds brought forward and payments received.

**2.35** Accordingly, DOTARS’ procedures focused on Part 1 of the Annual Report (the Financial Statement). The procedures did not, however, address checking for completeness and accuracy of Part 2 (the Statement of Accountability) or Part 3 (the Statement of Key Outcomes) within the submitted Annual Reports. In relation to the Statement of Accountability, this included the expenditure maintenance certification that was relied upon by DOTARS (see further below). In relation to the Statement of Outcomes, the data submitted by LGAs was used in 2001–02 and 2002–03 in reporting Program outcomes to Parliament.

**2.36** Analysis of R2R Annual Reports submitted by ANAO’s sample of LGAs found 43 per cent of Annual Reports contained errors. These included:

- important parts of the form (for example, the Statement of Outcomes) not being completed;
- the required certification not being provided (this included incorrect years being specified for the expenditure maintenance certificate); and
- errors in the audited financial statement (including the reported amount of R2R funding received being incorrect).

**2.37** The percentage of Annual Reports, by Part, that contained an error (excluding any date errors) is detailed in Table 2.3. Table 2.3 demonstrates that there was improvement over the life of the Program. However, almost a quarter of 2004–05 Annual Reports still contained an error in at least one part.

**Table 2.3**

**Percentage of submitted Annual Reports containing errors**

	2000–01 (%)	2001–02 (%)	2002–03 (%)	2003–04 (%)	2004–05 (%)
Part 1	11	15	14	13	7
Part 2	19	40	46	23	13
Part 3	15	17	10	7	7
<b>Percentage of individual Annual Reports with errors</b>	<b>35</b>	<b>54</b>	<b>55</b>	<b>37</b>	<b>24</b>

Source: ANAO analysis of LGA records submitted to DOTARS.

**2.38** ANAO’s examination of DOTARS’ management of the wind-up of the R2R Program (see Chapter 4) revealed that DOTARS has begun applying greater scrutiny to R2R Annual Reports and, where errors have been detected, requiring a corrected Report to be submitted.

## Project Outcomes

**2.39** In addition to receiving funds direct from the Australian Government, the R2R Program enabled LGAs to nominate the projects to be funded from their allocation.<sup>69</sup> In this respect, a number of LGAs advised ANAO of the benefits the R2R Program had delivered to them. For example:

- Macedon Ranges Shire Council in Victoria advised ANAO in July 2005 that 'from the outset of the announcement of funding from the Federal Government, Council has thoroughly embraced the Roads to Recovery Program welcoming the opportunity to bring forward much needed work on its road network. You can be assured that the full allocation has been expended on relevant and worthwhile projects as defined in the guidelines.'
- Also in July 2005, the City of Melbourne in Victoria advised ANAO that 'Council undertook two major road projects under the Roads to Recovery Program; Laurens Street and Hartley Street. These projects were unable to be funded from Council's normal funding sources and, as such, the benefits of the Roads to Recovery Program to Council are significant and ongoing.'
- The City of Belmont in Western Australia advised ANAO in August 2005 that it 'is appreciative of the funding provided under the R2R Program. The funding has enabled this Council to undertake many road rehabilitation projects which would still be outstanding if we were to rely solely on municipal funds. A majority of the funding has been expended in the City's industrial area which has improved the serviceability of the estate. This has increased the attractiveness of the area to investment thus providing employment opportunities and improving the general economy of the City.'
- Also in August 2005, Brisbane City Council in Queensland advised ANAO that 'the first round of Roads to Recovery funding has been very successful, enabling Brisbane City Council to complete 15 additional key road infrastructure projects with the \$28.6 million in funding allocated.'
- Maroochy Shire Council in Queensland advised ANAO in October 2005 that 'the R2R Program is a very important component of Council's road construction and maintenance program. The Program has allowed Council to maintain a relatively high level of expenditure on our ever increasing (in road length and traffic volumes) road network.'

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<sup>69</sup> Projects were nominated by LGAs in works schedules provided to DOTARS.



**2.40** The ability of LGAs to nominate their own projects was subject to the requirement that the projects involve the construction, upgrade or maintenance of roads, as defined in the R2R Act. Under the R2R Act, the term 'road' is defined broadly. It includes traffic lights and signs, street lights, vehicular ferries, bridges and tunnels and bike paths.<sup>70</sup> DOTARS has reported<sup>71</sup> that, of the approximately 15,000 road projects funded over the life of the Program:

- almost 34 per cent involved reconstruction, rehabilitation and widening of local roads;
- 14.3 per cent involved sheeting and re-sheeting gravel roads with a new surface;
- 11.6 per cent involved sealing along sections of gravel roads; and
- 10.1 per cent involved bridge or drainage works, with about 700 bridges replaced or repaired.

**2.41** The following photographs show one example of each of these different types of works inspected by ANAO during this performance audit.<sup>72</sup>

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<sup>70</sup> DOTARS, *Annual Report 2003–04*, p. 81.

<sup>71</sup> DOTARS, *Annual Report 2004–05*, p. 66.

<sup>72</sup> Data on how the remaining 30 per cent of funds were used by LGAs was not reported by DOTARS.



Gundagai Shire Council, New South Wales, Project No's 2, 6 and 8: Adjungbilly Road: widening carriageway and strengthening pavement (\$263,204). Photo taken 14 March 2005.



District Council of Yorke Peninsula, South Australia, Project No.16: Waterloo Bay Road: construction and sealing of part of an unsealed road (\$329,784). Photo taken 6 April 2005.



Shire of Serpentine Jarrahdale, Western Australia, Project No.25: Gravel road reconstruction, various sections of selected roads: strengthen formation and improve drainage (\$69,042). Photo taken 12 May 2005.



Northern Midlands Council, Tasmania, Project No.6: replacement of Stewarton Bridge No.1965 located on Barton Road (\$575,874). Photo taken 6 July 2005.

## Reporting on outcomes by LGAs

**2.42** As mentioned, the LGA R2R Annual Reports were required to include a Statement of Outcomes.<sup>73</sup> This statement was to outline the key outcomes achieved by the LGA from its R2R expenditure in the relevant year.

**2.43** The 2001-02 and 2002-03 R2R Program Annual Reports presented to the Parliament under section 10 of the R2R Act included summary data on key outcomes reported by LGAs for that year. This data was not included in the 2000-01 or 2003-04 R2R Program Annual Reports presented to the Parliament.

**2.44** ANAO undertook similar analysis of outcomes reported by the 93 LGAs in its sample across the life of the Program (see Table 2.4). According to the Annual Reports submitted to DOTARS by the LGAs in ANAO's sample, most of the R2R funds were spent on:<sup>74</sup>

- improving road safety (30 per cent);
- achieving better asset management (25 per cent); and
- improving heavy vehicle access (12 per cent).

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<sup>73</sup> The proforma Annual Report statement of outcomes included a list of 13 possible outcomes as represented in Table 2.4.

<sup>74</sup> The percentages are based on the reported expenditure of \$188,210,889, which had been reconciled with DOTARS through Annual Reports available as at 15 November 2005.

**Table 2.4****Reported outcomes over the life of the R2R Program by ANAO's sample**

Outcome	Estimated % of Roads to Recovery Expenditure (all projects of the 93 LGAs in sample)
1. Road Safety	30.0
2. Regional economic development	6.4
3. Achievement of asset maintenance strategy	24.9
4. Improved access for heavy vehicles	11.5
5. Promotion of tourism	2.8
6. Improvements of school bus routes	4.8
7. Access to remote communities	1.0
8. Access to intermodal facilities	0.6
9. Traffic management	4.9
10. Improved recreational opportunities	1.1
11. Amenity of nearby residents	8.6
12. Equity of access (remote areas)	1.9
13. Other (or not specified)	1.6
TOTAL	100.0

Source: ANAO analysis of LGA R2R Annual Reports submitted to DOTARS.

**2.45** The Administrative Guidelines state 'Councils are urged to cooperate to enable larger projects to be implemented on key interregional links'. However, the only example regarding cooperation and interregional links among the 93 LGAs in ANAO's sample related to a Route Development Study undertaken by Port Stephens Council in New South Wales. On this project, Council advised ANAO in August 2005 that:

When the Federal Government announced that there would be a strategic component within the new Roads to Recovery program, Port Stephens Council decided to be pro-active in order to attract some of these new funds. We approached Dungog Shire Council and came to an agreement with them to carry out a combined Route Development Study of Seaham Road and Clarence Town Road between Raymond Terrace (in Port Stephens) and Clarence Town (in Dungog). ...

We believe that the \$32,012 that was spent on this study from the Roads to Recovery program was justified for the following reasons:

- the expenditure represents less than 1% of the total value of the Strategic Component of the new Roads to Recovery Program;
- the study ensures that the projects to be carried out under the Strategic Component of the new Roads to Recovery program will have community support; and
- verbal approval was obtained from DOTARS before proceeding.

**2.46** There were also a number of interregional projects in South Australia delivered with R2R funding provided through the South Australian Local Government Grant Commission's Special Local Roads Program. These projects and associated issues are examined in Chapter 5.

## **Work standards and quality**

**2.47** The R2R Act, Funding Conditions and Administrative Guidelines were silent on the required standard of works to be undertaken using R2R funds. For example, these documents make no mention of the National Code of Practice for the Construction Industry.<sup>75</sup> They also did not address issues such as constructing to a 'fit for purpose' standard.<sup>76</sup>

**2.48** In regards to the National Code of Practice for the Construction Industry, DOTARS commented to ANAO in February 2006 as follows:

There is no mention of the Code of Practice for the Construction Industry in the funding conditions or administrative guidelines because they only applied to 'directly' funded projects ie where the Commonwealth contracted directly with the construction body, prior to 1 January 2004. The Roads to Recovery programme was not a direct funding programme. The Government determined that from 1 January 2004, all new projects which reached the threshold requirements, whether funded directly or indirectly by the Commonwealth, would be subject to the Code and it has been included in the new programme guidelines. All projects in the relevant period were below the threshold.

### *ANAO site inspection observations*

**2.49** As outlined in Chapter 1, ANAO inspected the work undertaken by 93 LGAs on 408 R2R projects. The site visits involved a visual examination of the project and, if applicable, associated R2R signage. Measurements were taken, if relevant to the project, of the length and width of the applicable work. Photographs were also taken of the works.

**2.50** The ANAO site inspections did not extend to testing the structure or composition of the road. This was primarily because the invasive nature of

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<sup>75</sup> The National Code of Practice for the Construction Industry (the Code) is a set of principles which describe good practice in respect of workplace relations, occupational health and safety, procurement and security of payment in the construction industry. The Code covers the responsibilities of Australian Government agencies as clients, project managers, contractors, industrial associations and employers. In 1997, the Government agreed that the Code would apply to all Australian Government construction projects.

<sup>76</sup> For example, in December 2001, as part of the South Australian State/Local Government Partnerships Program, the Local Roads Advisory Committee developed the Roads Infrastructure Database Project. As part of the project, new guidelines were developed which were based on a 'fit for purpose' approach. The proposed guidelines were to enable councils, regional associations and the Local Roads Advisory Committee to assess in a more consistent manner the purpose of a particular project, the desired standard required and the costs and benefits of upgrading to this standard.

such testing means it is best undertaken when the works are being done rather than after the works are completed. Such testing could have examined whether: the works in any technical specifications had been undertaken as planned; the road sub-base material was as expected for the proposed works solution; and the thickness of surface treatment applied was as reported and charged to the project.

**2.51** ANAO's site inspections indicated that the quality of the work undertaken with R2R funds varied considerably. For many projects, the work appeared to have been undertaken to a high standard. However, there were also instances where, from observation alone, it was apparent that the treatments applied were not adequate for the intended use of the road, or for the traffic conditions. Sometimes the deficiencies were such that work had to be re-done.<sup>77</sup> In other instances, the relevant LGA advised ANAO that it would investigate the issue and undertake any necessary remediation work.

**2.52** In terms of work standards and quality, DOTARS commented to ANAO in December 2005 as follows:

On engineering advice, we make the point that even with sound project design, pavement deterioration can occur for a variety of reasons and that this does not necessarily mean that there has been defective work. The only way to avoid this would be to over engineer all projects. This would prevent councils from achieving value for money from available funds.

If poor workmanship is identified during Departmental audit or project reviews, cases would be investigated with the council in the context of the technical standards applied for the project.

### *Auslink Roads to Recovery*

**2.53** Issues regarding specifying the standard of work to be undertaken with Australian Government funds have been addressed for the Auslink Roads to Recovery Program. In terms of the technical standard of works, the Notes on Administration state as follows:

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<sup>77</sup> For example, ANAO analysis of Quarterly Reports identified that Maroochy Shire Council in Queensland had two projects that appeared to overlap the same section of road. The first project (Project No.18) involved asphalt overlay in early 2002 on Mudjimba Beach Road, Mudjimba at a cost of \$93,419. The second project (Project No.61) involved foam bitumen stabilisation and bitumen and asphalt surfacing on the same road in late 2004 at a cost of \$253,000. In May 2004, Council advised ANAO that the original pavement work had 'exhibited significant distress' to the point that additional treatment was required over approximately 60 per cent of the originally treated length. Council further advised that:

The reason for the pavement failure occurring so recent to the earlier asphalt overlay work is not fully clear but is attributed generally to significant heavy vehicle loading from nearby development together with high pavement moisture conditions trapped in the pavement following the earlier asphalt overlay. Whatever the cause, the failure was unexpected and required attention. It was considered reasonable and within the guidelines to proceed with completing the task utilising Roads to Recovery funding.

Projects undertaken using Auslink Roads to Recovery payments should comply with standards and guidelines published from time to time by Austroads,<sup>78</sup> Standards Australia, the government of the State or Territory in which the project is undertaken or the Australian Road Research Board<sup>79</sup> which are applicable to the project.

**2.54** The Notes on Administration also address the National Code of Practice for the Construction Industry.<sup>80</sup> Specifically, application of this Code is a condition of funding for new construction projects funded under the Auslink Roads to Recovery Program where:

- the Australian Government's contribution to an individual project is \$5 million or more and where that contribution represents at least 50 per cent of the total project value; or
- the Australian Government's contribution to an individual project is over \$10 million, irrespective of the proportion this represents of the total project cost.

## Recognition of Commonwealth funding

**2.55** In terms of recognising the Commonwealth funding of road works undertaken by local government, the R2R Funding Conditions stated as follows:

An LGA must ensure that the Commonwealth receives appropriate recognition for its contribution to the road works concerned. Each LGA must erect signs acknowledging the Commonwealth's role in respect of all works funded under the Act and cooperate with the Commonwealth in informing the public of the Commonwealth's role, in accordance with the Guidelines.

**2.56** In this respect, the Administrative Guidelines for the R2R Program noted that the Australian Government wanted to work closely with LGAs to inform the public about the projects and improvements being funded by the Program. This was achieved in two ways. Firstly, LGA work schedules were

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<sup>78</sup> Austroads is the association of Australian and New Zealand road transport and traffic authorities. Austroads members are the six Australian State and two Territory road transport and traffic authorities, DOTARS, ALGA and Transit New Zealand.

<sup>79</sup> The Australian Road Research Board Group (ARRB Group) is a public company whose members are the Australian, State and local government authorities of Australia and New Zealand. ARRB Research, a not-for-profit entity within the ARRB Group, works in partnership with Austroads in the fields of pavements and materials, bituminous surfacings, asset management and road safety engineering.

<sup>80</sup> In December 2005, DOTARS advised ANAO that the Code:

only applied to "directly" funded projects, that is where the Commonwealth contracted directly with the construction body, prior to 1 January 2004. The R2R Program was not a direct funding program. The Government determined that from 1 January 2004, all new projects which reached the threshold requirements, whether funded directly or indirectly by the Commonwealth, would be subject to the Code and it has been included in the new Program guidelines.



publicly available through the DOTARS web site. Secondly, the Guidelines included the following:

- LGAs were to consult with DOTARS prior to releasing formal statements, media releases, displays or publications (including brochures) and newspaper advertising about any work funded by the Program. This material was expected to acknowledge the Commonwealth's contribution;
- R2R signs were to be placed at each end of the works when the work began, and be maintained for two years after the project was completed. The signs were to be placed so that they were in plain view of passing motorists. An appendix to the Guidelines included the specifications for the signs, including dimensions, contents and typefaces; and
- LGAs were to advise DOTARS of opening or completion ceremonies well in advance and organise joint ceremonies when requested. Local Federal Members and/or Senators were to be invited to these ceremonies, plus others requested by the Minister. When a project was not to be officially opened, the possibility of a joint media statement was to be discussed with DOTARS.

**2.57** The section of the Administrative Guidelines relating to R2R signs was amended in April 2004 (no other changes were made to the public information section of the Guidelines during the course of the Program). Specifically, signs were no longer to refer to 'A Federal Government Initiative' but were to refer to 'An Australian Government Initiative'. The change was implemented on a nil cost basis such that existing signs could stay in place and the new signs were to be used only where signs had not yet been prepared or placed.<sup>81</sup> The following two photographs show the two versions of the R2R sign at projects inspected by ANAO.

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<sup>81</sup> *Roads to Recovery Program Annual Report 2003–2004*, prepared pursuant to section 10 of the R2R Act, p. 5 and *Roads to Recovery Circular 2004/7*, 3 May 2004.



Southern Midlands Council, Tasmania, Project No.5: Woodsdale Road, Woodsdale: construct and seal present unsealed road including road widening and drainage. (\$932,619 R2R cost with Council contributing the remainder of the estimated \$2.1 million cost). Photo taken 7 July 2005.



Monash City Council, Victoria, Project No.8: Dermot Street between Delia Street and Devoy Street, Oakleigh South: refurbishment of road (\$238,287). Photo taken 10 May 2005 when work was in progress.

## Compliance with signage requirements

**2.58** In March 2004, DOTARS advised LGAs that the Department would be undertaking random audits of R2R projects, as follows:<sup>82</sup>

We will be undertaking a random audit of *Roads to Recovery* projects and your council may be identified for audit. It would be appreciated if councils so requested be available to assist the Australian Government officer to see the projects your council has undertaken. Please ensure that the signage requirements have been met. Councils involved will be given reasonable notice. Note that this is an on site audit, not an audit of your books. The Act allows financial audits to be done but they are only undertaken in exceptional circumstances.

**2.59** According to the 2003-04 R2R Program Annual Report submitted to the Parliament,<sup>83</sup> on ground audits by DOTARS officers began in January 2004. The Annual Report further stated that 28 councils were visited in 2003-04 with all shortcomings identified relating to compliance with the R2R signage requirements. DOTARS also advised LGAs of the results, as follows:

- In April 2004, DOTARS reported<sup>84</sup> that the visit program had begun with mixed results. Specifically,

while the description of works on the web site generally line up with what is on the ground, the completion dates often bear little relation to reality and there needs to be better compliance with the signage requirements. Please note that audits will be conducted throughout Australia and distance from Canberra does not mean you will avoid audit.

- In July 2004, DOTARS reported<sup>85</sup> that audits in the Australian Capital Territory and 30 LGAs in NSW, Western Australia, Queensland, South Australia and the Northern Territory had been completed. In terms of findings, DOTARS stated that:

results have been mixed with barely half of the councils meeting the signage requirements. We have found three councils with no signs at all. Audits are continuing. We are grateful for the cooperation of the councils audited.

**2.60** The importance of the signage requirements was emphasised to LGAs in DOTARS' July 2004 advice to LGAs. This advice reminded LGAs of the R2R signage requirements. It also informed them that 'councils not meeting the signage requirements are non-complying and will receive no more funds until evidence is provided to show that the deficiencies have been rectified'.

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<sup>82</sup> DOTARS *Roads to Recover Circular 2004/4*, 18 March 2004.

<sup>83</sup> *Roads to Recovery Program Annual Report 2003-2004*, *op. cit.*, p. 8.

<sup>84</sup> *Roads to Recovery Circular 2004/6*, 20 April 2004.

<sup>85</sup> *Roads to Recovery Circular 2004/10*, 20 July 2004.

## *ANAO site inspection findings*

**2.61** ANAO site visits to a selection of projects undertaken by the sample of 93 LGAs included an assessment of compliance with the R2R signage requirements. For 38 per cent of inspected projects, R2R signs were not required to be in place at the time of ANAO's visit because the project had been completed more than two years prior to the visit. For the remaining projects, ANAO found that:

- R2R signs were in place for 55 per cent of projects that required them,<sup>86</sup> and
- the required R2R signs were not in place for 45 per cent of projects.

**2.62** Non-compliance with the R2R signage requirements was raised with the affected LGAs. Some LGAs advised ANAO that R2R signs had been installed but had been stolen or otherwise removed. Other LGAs advised ANAO that the signs would be installed. In addition, some LGAs advised ANAO that strict adherence to the signage requirements was impractical.<sup>87</sup>

## **Auslink Roads to Recovery**

**2.63** Recognising the issues that arose in the initial R2R Program, changes have been made to the signage requirements for the Auslink Roads to Recovery Program. Specifically:

- smaller signs may be installed where the usual speed limit on the road is 80 kilometres per hour or less;
- where an LGA carries out a number of projects where the total cost is, or is expected to be, less than \$10,000, signs may be erected on major roads in the area and at entrances to communities rather than at each works location; and
- signs must now remain in place for a minimum of one year (rather than two) after the project has been completed.

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<sup>86</sup> In some instances, it was apparent from physical inspection of the works that the R2R signs had been installed shortly prior to ANAO's visit rather than when work began (as required).

<sup>87</sup> For example, the City of Bunbury in Western Australia advised ANAO in September 2005 that, as per R2R signage requirements, every project requires 2 signs erected at each end of projects. Considering that the City completed 124 projects under the Program, it would have been required to install 248 signs throughout the City at a cost of approximately \$75,000 just in recognition of the Roads to Recovery Grants. The City considered this was an unnecessary waste of valuable funds and raised the issue with DOTARS. The issue has since been resolved with DOTARS agreeing to the installation of a limited number of signs at strategic locations.

## Aggregate local government expenditure on roads

**2.64** Cost shifting involving local government has been a significant issue for a number of years. In general, the concern has involved shifting of costs from the Australian and State/Territory Governments to local government.<sup>88</sup> However, in developing the R2R Program, the Government was concerned to address cost shifting in the other direction; that is, LGAs substituting Australian Government funds for their own expenditure on roads.

**2.65** In this context, the R2R Program was designed to address the problem that a significant amount of local government road infrastructure was reaching the end of its economic life and its replacement was beyond the capability of local government. It was for this reason that the funding provided under the R2R Act was to be additional to existing road funding.<sup>89</sup> Accordingly, provisions were included in the R2R Act, Funding Conditions and Administrative Guidelines requiring LGAs to maintain their own source expenditure, rather than substituting Commonwealth funding for their own, in constructing, upgrading and maintaining roads.

**2.66** In the course of its administration of the R2R Program, DOTARS did not attempt to assess whether or not, in aggregate, local government spending on roads had been maintained since the introduction of the R2R Program. In the absence of such analysis, ANAO initially endeavoured to use data published by the Bureau of Transport and Regional Economics (BTRE) within DOTARS.<sup>90</sup> This analysis indicated that expenditure on roads by local government net of transfer of funds from higher levels of government (such as through the R2R Program) for each year between 1998-99 and 2002-03 (the last year included in the BTRE's 2005 publication) may have actually fallen. However, in December 2005, DOTARS advised ANAO that:

Road expenditure at the local government level is not consistently collected. There are different methodologies and different interpretations both between local councils and between jurisdictions. Indications from local government grants commission data, WA Local Government Association data and the National Transport Commission reports is that local government has sustained or increased its road expenditure since the introduction of the R2R Program.

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<sup>88</sup> Reflecting this, on 30 May 2002, the then Minister for Regional Services, Territories and Local Government, the Hon. Wilson Tuckey MP, wrote to the House of Representatives Economics, Finance and Public Administration Committee asking it to inquire into the issue of local government and cost shifting. The main objective of the inquiry was to 'tackle the serious problem of cost shifting onto local government and in doing so ensure that this sphere of government is appropriately financed to more effectively and efficiently serve the community'. The Committee reported in October 2003.

<sup>89</sup> See the R2R Act, Second Reading Speech, 5 December 2000 and the clause 7 of the Explanatory Memorandum for the Bill.

<sup>90</sup> Specifically, data from Bureau of Transport and Regional Economics, *IS24: Public Road-Related Expenditure and Revenue in Australia (2005 update)*, Table 1.

We agree with the advice from the BTRE on the limitations of using [the BTRE publication] to provide a time series of local government road expenditure. The major issue is the absence of private developer contributions which we consider can be classified as 'own source revenue' for local governments. We understand that there was a major change in methodology in 2000 which has meant that the results before and after this year may not be comparable.

The BTRE data does not measure local government's own expenditure on roads. It derives an estimate of local government spending on roads by subtracting federal and state spending on roads from total spending on roads. Local government own source spending is therefore a residual and is open to error, not least because it includes council spending on State roads. There is no common definition of local roads and many councils contribute to funding of "regional roads" where there is a blurring of responsibility between the two tiers of government.

## Recommendation No.2

**2.67** ANAO *recommends* that, having regard to the fundamental importance to the Roads to Recovery Program that funds provided by the Commonwealth be additional to existing road funding, DOTARS undertake periodic assessments of whether aggregate local government spending on roads has been maintained.

### *DOTARS response*

**2.68** DOTARS agreed to the recommendation and commented that:

The Department will assess aggregate spending to the extent of the available reliable information to augment the current analysis of individual councils that informs compliance with the funding conditions.

## **Maintenance of own source roads expenditure by sampled LGAs**

**2.69** The R2R Funding Conditions stated that each LGA must maintain the level of roads expenditure which it funded otherwise than under the R2R Act, and provide a statement to DOTARS that it had done so. The format of this certification was included in the proforma Annual Report included in the R2R Administrative Guidelines (see Appendix 2). This proforma required that the Chief Executive Officer of each LGA certify that expenditure on roads from the LGA's own sources in the relevant year had been maintained at or above the average of the amounts expended on roads from those sources over the years 1998-99 to 2000-01.

**2.70** In order for DOTARS to rely on the LGA certifications, it was important that LGAs had analysed whether they had maintained their own source expenditure *prior* to certifying. However, in the course of the audit, a number of LGAs advised ANAO that they had not undertaken their own analyses of their roads expenditure in order to give proper consideration to the whether they had maintained their own expenditure prior to certifying that they had.<sup>91</sup> This raised the possibility that a number of the certifications provided to DOTARS by LGAs had been made in error, as the financial analysis necessary to substantiate the certifications had not been undertaken. The following case study provides an example.

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<sup>91</sup> Some of these LGAs advised ANAO that they would, in the future, undertake appropriate analysis prior to certifying that they had met the expenditure maintenance requirement. For example, ANAO's analysis revealed that Wambo Shire Council in Queensland's expenditure on roads funded otherwise than under the R2R Act in 2000–01 and 2001–02 was below the average level of expenditure on roads between 1998–99 to 2000–01. On this issue, Council advised ANAO as follows in October 2005:

You have calculated an average figure from 1998–99 to 2000–01 at \$2,141,032. This does not truly represent a proper starting point for our base expenditure as two of these three years were above normal expenditure due to a once-off gravel road upgrade program within Council. This amounted to an additional \$1.5 million above previous levels of expenditure. That would indicate an average of \$1.6 million, which is closer to our previous levels.

Apart from this, the low expenditure year of 2001–02 can be explained due to a number of private jobs done which delayed normal Council works that year. This is obvious in the figures as the work completed in 2002–03 year was well over normal expenditure. This does not excuse us from certifying expenditure in our Annual Report that year as being at or over normal levels. We will be more careful and carry out checks in our system prior to signing off in future years.

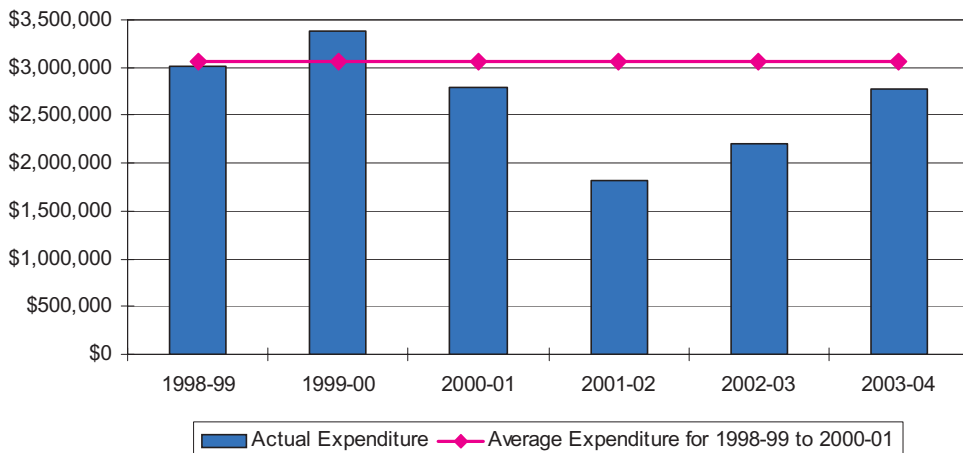
## Case Study No.2.1: Lithgow City Council, New South Wales

Lithgow City Council is located on the western escarpment of the Blue Mountains in NSW. It received an R2R allocation of \$1,616,965. It nominated five projects to fund with its allocation. One of these, inspected by ANAO, was Project No.2: Glen Davis Road between Capertee and Glen Davis township—approximately five kilometres of unsealed rural road requires road upgrade including regravelling, culvert extensions, table drains and two coat bitumen sealing works. ANAO's inspection revealed that 6.3 kilometres of work had been undertaken for the reported cost of \$303,532. The following photo shows the completed works at the time of ANAO's visit in March 2005.



In each of its Statements of Accountability contained in the R2R Annual Report submitted to DOTARS, Lithgow City Council certified that it maintained its own expenditure on roads. However, in two years Lithgow City Council's Report referred to the incorrect average period. Specifically, the 2002–03 Report used the period 1998–99 to 2002–03; and the 2003–04 Report used the period 1998–99 to 2003–04.

In order to validate whether Lithgow City Council had actually maintained its expenditure on roads from funds otherwise than under the R2R Program from 2000–01 onwards, ANAO compared the average level of expenditure in 1998–99 to 2000–01 to Lithgow City Council's reported expenditure on roads in 2000–01, 2001–02, 2002–03 and 2003–04. As demonstrated by the following chart, ANAO's analysis revealed that Council's expenditure on roads funded otherwise than under the R2R Act had not been maintained in any of the four years.



Source: ANAO site visit and analysis of DOTARS and Council data and related correspondence.



**2.71** Where LGAs had undertaken their own analysis, ANAO found that inconsistent approaches were taken. For example:

- Port Stephens Council in New South Wales advised ANAO in October 2005 that its interpretation was that it should include all its expenditure on local and regional roads,<sup>92</sup> no matter what the source of funding, as long as it was not R2R funding;
- data provided to ANAO by Brisbane City Council in Queensland showed that this LGA, when calculating whether or not it had maintained its own expenditure on roads, offset its expenditure on roads by contributions to the cost of the work received from private sources; and
- Monash City Council in Victoria used budgeted expenditure figures rather than actual expenditure figures.

*Definition of own sources*

**2.72** The inconsistent approaches taken by those LGAs that had analysed their own source expenditure was a consequence of the lack of guidance provided to them, particularly in relation to what was meant by 'own source expenditure'. This term was not defined in the R2R Act, the Funding Conditions, the Administrative Guidelines or in any other guidance from DOTARS to LGAs.

**2.73** The R2R Act and R2R Conditions (at Part 4) require the maintenance of expenditure 'otherwise than under the R2R Act'. This suggests that roads expenditure from all sources other than the R2R Program is to be maintained. However, the R2R Conditions (at Part 10) and the R2R Guidelines use the term 'own sources', which implies a narrower scope of expenditure than the R2R Act.

**2.74** DOTARS' records from April 2001 indicate that it had adopted, as an administrative principle, that if a council has decision-making power over whether to spend certain funds on roads, then that expenditure could be considered from the LGAs own sources.<sup>93</sup> However, DOTARS sought internal legal advice as to the appropriateness of its description of 'own source' funding in July 2001, which concluded that:

... it is not good administrative practice or appropriate given the structure of the [R2R Program] that 'administrative principles' be used. For clarity, certainty and fairness any definition or explanation of the term 'own sources'

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<sup>92</sup> Expenditure on State roads was not included as Council advised ANAO that it maintained these under a contractual arrangement with the NSW Roads and Traffic Authority.

<sup>93</sup> This definition was expressed by DOTARS as the approach it had applied as specific issues arose, in response to some LGAs' requests for further clarification of the expenditure maintenance condition.

should be included in either the [R2R Conditions] or in the [R2R Guidelines] and applied consistently to all LGAs.<sup>94</sup>

**2.75** Subsection 7(5) of the R2R Act provides that the Minister may, by notice in the Gazette, revoke or vary any of the conditions. Notwithstanding the lack of clarity surrounding the definition of the types of expenditure LGAs are required to maintain under the R2R Act, and the legal advice that the terminology be defined in an amendment to the R2R Conditions or R2R Guidelines, no clarification of the terminology used in the documents was communicated by DOTARS to LGAs. Further, although amendments were made to the R2R Guidelines in February 2003, and in April 2004, this issue was not addressed by the amendments.

### *Expenditure maintenance certifications by LGAs*

**2.76** ANAO undertook an examination of the R2R Annual Reports for 2000-01 to 2003-04 inclusive<sup>95</sup> submitted by the 93 LGAs in the sample. The examination of these reports revealed that 89 of the 93 LGAs certified in each year that they had maintained their own roads expenditure.<sup>96</sup> In one or more years, the following LGAs did not certify that they had maintained their own source expenditure:

- Warringah Council in New South Wales certified in 2000-01 that it had maintained its expenditure, but in each of its R2R Annual Reports from 2001-02 to 2003-04, stated that it had not maintained its expenditure. In these statements, Warringah Council detailed its actual expenditure and the amount of, and reasons for, the shortfall;
- Brisbane City Council in Queensland made a footnoted qualification to its certification in 2002-03 to the effect that it had not maintained its expenditure in that year (Council stated that it had achieved 99.03 per cent of the required figure), and provided details of the reasons it had not been maintained;
- Sydney City Council in New South Wales, in its 2001-02 R2R Annual Report, certified that it had maintained its expenditure above the

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<sup>94</sup> The legal advice also noted that there was 'some inconsistency in terminology used within and between' the R2R Conditions and R2R Guidelines and that, if an opportunity arose to amend these documents this issue should be addressed.

<sup>95</sup> At the time of audit fieldwork, 2004-05 Annual Reports were not yet due and so 2004-05 R2R Annual Reports were not available for analysis.

<sup>96</sup> A number of the LGAs actually certified that they had maintained their levels of expenditure above a period average other than that required under the R2R Guidelines (that is, 1998-99 to 2000-01).

required level 'with the exception of additional works undertaken in the lead up to the 2000 Olympics';<sup>97</sup> and

- Launceston City Council in Tasmania certified in its 2003-04 R2R Annual Report that it had maintained expenditure 'at approximately (99.2%)' of the required average level.

**2.77** DOTARS did not contact Brisbane City Council, Sydney City Council or Launceston City Council in relation to their acknowledged failure to maintain their own expenditure on roads. In relation to Warringah Shire Council, no action was taken in relation to the 2001-02 or 2002-03 Annual Reports. In relation to the 2003-04 Annual Report, DOTARS wrote to Council in April 2005,<sup>98</sup> as follows:

On 30 September 2004, you submitted your Council's *Roads to Recovery* Annual Report for 2003-04. In it, you indicated that your council had failed to comply with the expenditure maintenance requirements of the Program. This is a serious breach. The expenditure maintenance requirements exist to ensure that councils do not simply substitute Australian Government funding for their own.

The new *Roads to Recovery* Program to begin on 1 July 2005 will also have expenditure maintenance requirements. Any breach of these requirements will render your Council non complying and this could impact on your funding under that Program.

**2.78** The inconsistent approaches taken by DOTARS to LGAs that did not certify that they had maintained their own roads expenditure demonstrates that the Department did not have in place procedures to address the administration of this Funding Condition. In this context, it was not until 2004,<sup>99</sup> after Gatton Shire Council in Queensland disclosed in its 2002-03 R2R Annual Report (submitted in February 2004) that it had not maintained its own expenditure, that DOTARS investigated what action, if any, it could take in such circumstances. The outcome was that funds could not be recovered nor

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<sup>97</sup> Information subsequently provided to ANAO by Council demonstrated that it had not, in fact, maintained its expenditure in any of the years up to and including 2003-04.

<sup>98</sup> DOTARS wrote to Council again in August 2005 after the 2004-05 R2R Annual Report was submitted. DOTARS stated as follows:

I now note with concern that your council has again failed to comply with the same requirements in 2004-05 for the same reasons. ...I have noted the reasons given for your council's non compliance with the funding conditions. While being sympathetic to the council's financial situation, I do not agree that these difficulties justify shifting the cost for local roads maintenance and upkeep to the Australian Government. I would appreciate it if you could examine the new Program funding conditions closely and advise me by 30 September 2005 as to whether your council anticipates complying with the Program expenditure maintenance requirements during the current year and for the four year life of the Program.

<sup>99</sup> In December 2005, DOTARS advised ANAO that it first sought advice on its options in May 2003, after receipt of Gatton Shire Council's 2001-02 Annual Report, and the Minister was briefed.

could further payments be withheld. This issue has been addressed in developing the Auslink Roads to Recovery Funding Conditions.

### *ANAO analysis*

**2.79** ANAO sought to independently assess whether the 93 LGAs in the sample had maintained their own expenditure on roads.<sup>100</sup> Where possible, ANAO relied on analysis undertaken by LGAs themselves either prior to certifying (six LGAs), or in response to ANAO’s inquiries (35 LGAs). For 42 LGAs that had not undertaken their own analyses of their expenditure levels, ANAO quantified the average level of expenditure on roads using data from the LGAs’ statutory financial statements, or other data provided to ANAO by the relevant LGA. For the remaining 10 LGAs, the relevant financial statements did not enable ANAO to analyse whether expenditure had been maintained, and the LGAs did not provide other data that addressed the issue. Table 2.5 summarises the position.

**Table 2.5**

#### **Quantification of expenditure maintenance by LGAs**

	<b>Number of LGAs</b>
Quantified by LGA prior to certification	6
Quantified by LGA during performance audit	35
Quantified by ANAO as part of audit	42
Not quantified	10
<b>TOTAL</b>	<b>93</b>

Source: ANAO analysis of DOTARS and LGA data and related correspondence.

**2.80** On the issue of the LGA expenditure maintenance requirement, DOTARS advised ANAO in December 2005 that:

The Program Funding Conditions placed the onus on councils to comply and put the responsibility on them to verify compliance via their Annual Report.

**2.81** Table 2.6 outlines the results of ANAO’s analysis as to how many LGAs in the sample had met the expenditure maintenance requirements, and for how many years. In total, 31 of the 83 LGAs (37 per cent) for which ANAO was able to undertake the analysis had maintained their expenditure in each year above the average level in the reference period of 1998-99 to 2000-01. However, the remaining 52 LGAs (63 per cent) had not maintained their own source expenditure in at least one year between 2000-01 and 2003-04. While annual

<sup>100</sup> Noting that, where an LGA did not receive any R2R funding at the beginning of the Program, or had fully acquitted all its R2R funds in the later years, it was not required to submit an Annual Report. Therefore it did not certify that it had maintained its levels of expenditure in that year and was assessed only for relevant years.

expenditure can be distorted by one-off or special road works projects, the R2R Funding Conditions did not allow the average to be adjusted for such circumstances. In any event, certifications should be properly made, or additional explanations provided, if they are to be relied upon.

**Table 2.6**

**Maintenance of expenditure by sampled LGAs for the period 2000–01 to 2003–04**

	Number of LGAs where expenditure was:					Total
	Maintained in each year	Maintained in three years	Maintained in two years	Maintained in only one year	Not maintained in any year	
NSW	7	2	4	1	5	19
NT	1	0	0	1	3	5
QLD	6	4	7	0	0	17
SA	3	1	1	2	0	7
TAS	2	2	1	2	1	8
VIC	7	3	2	0	0	12
WA	5	5	2	2	1	15
<b>Overall</b>	<b>31</b>	<b>17</b>	<b>17</b>	<b>8</b>	<b>10</b>	<b>83</b>

Source: ANAO analysis of LGA data and related correspondence.

**2.82** Of the 52 LGAs that had not maintained their own source expenditure in at least one year between 2000–01 and 2003–04, 10 had not maintained in any year. Some of these LGAs provided ANAO with an explanation for this. For example:

- Sydney City Council advised ANAO in September 2005 that expenditures from 1998–99 to 2000–01 were ‘abnormally distorted by the additional major works undertaken in the Sydney Central Business District area in preparation for the 2000 Olympics’; and
- also in September 2005, Coomalie Community Government Council in the Northern Territory advised ANAO that it:

is committed to maintenance of and improvement to roads in the region, however Council’s income is limited and road work expenditure is essentially dictated by the income which can be attracted for road work purposes. Income and expenditure in the 1998–99 year is considerably higher than ensuring years and makes the average inequitable. However, as section 2 of the [R2R Annual Report] specifically nominates 1998–99 to 2000–01 years as the base years, then Council’s certifications were made in error.

## *Auslink Roads to Recovery*

**2.83** A number of changes have been made to the expenditure maintenance requirements for the Auslink Roads to Recovery Program.

**2.84** A key change has been that the LGA certification has been expanded to require LGAs to specify the amount spent using its own sources in each year together with the reference average amount. This should assist DOTARS to monitor compliance by LGAs with their expenditure maintenance obligation.

**2.85** The definition of own source expenditure has also been addressed. Specifically, the Auslink Roads to Recovery Notes on Administration state that own source funds means the funds available to the LGA other than those provided by the Commonwealth, a State or Territory government. This provides some clarification. However, it will mean that expenditure funded by developer contributions, for example, will be included. In this respect, some LGAs advised ANAO that they excluded works funded by developer contributions on the basis that the level of such contributions, and therefore their ability to maintain expenditure made with these funds, was outside their control. However, DOTARS considers that private developer contributions can be classified as LGA own source revenue (see paragraph 2.66).

**2.86** The third significant change involved providing greater flexibility in the expenditure maintenance requirement so as to take account of the fluctuating nature of LGA expenditure. In effect, the changes have made the expenditure maintenance requirement less stringent by:

- enabling LGAs to reduce the standard five year reference period 2000-01 to 2004-05 to a three year reference period by excluding a year with abnormally high expenditure together with the year in which expenditure was the lowest;
- providing that an LGA that does not satisfy the requirement in any particular year will be taken to have met the expenditure maintenance requirement where:
  - the average expenditure in that year and the previous year, exceeds the reference average; or
  - the average expenditure in that year and the two previous years exceeds the reference average.

**2.87** In December 2005, DOTARS advised ANAO that it considers the new requirements are:

fairer and take better account of the realities of council operation and expenditure on roads. They allow for averaging of expenditure over up to three years to take account of the marked variations in expenditure that can occur.

## 3. Governance Framework

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*This chapter analyses the governance framework of the R2R Program including the conditions and guidelines for the Program and the reporting arrangements for funding recipients.*

### Development and passage of the R2R Act

**3.1** On 21 November 2000, the Government decided that the R2R Program should be established to repair and upgrade Australia's rural, regional and local roads system. At that time Government also agreed that \$1.2 billion should be appropriated over four years to fund the Program and that the first payments should be made as soon as possible.

**3.2** On 27 November 2000, the allocation of the \$1.2 billion between the States was decided, as was the funding profile over the life of the Program, subject to adjustment if necessary. It was at this time that the Government decided that the Program would be implemented through a special bill allowing payment direct to LGAs. Further, the Government decided to seek passage of the bill by Christmas so that funds could begin to flow to LGAs as soon as possible in the New Year. It was considered at the time that, should the special bill not be supported in the Parliament, then the Program would be delivered to LGAs through State and Territory governments under the *Australian Land Transport Development Act 1998* (ALTD Act).<sup>101</sup>

**3.3** The then Minister for Transport and Regional Services in the second reading speech for the Roads to Recovery Bill reiterated the Government's desire to have the bill passed by Christmas, as follows:

I urge the Parliament to pass this bill without delay so the funds can be paid directly and quickly to local councils, as soon as administrative arrangements are in place. This will mean road works can start as soon as possible in the New Year, and on priorities nominated by councils.<sup>102</sup>

**3.4** Table 3.1 illustrates the timeline of events surrounding the development and passage of the R2R Act. It highlights the speed with which

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<sup>101</sup> Initially, it was proposed that the R2R Program be delivered through the provisions of the ALTD Act. It was subsequently decided that a separate Act, for a 'special appropriation bill in relation to the funding' was to be presented to Parliament. This was to allow payments direct to LGAs rather than through the State and Territory governments, as required by the ALTD Act.

<sup>102</sup> Hansard, Representatives—*Parliamentary Debate*, p. 23141, Thursday 30 November 2000.

the legislation was developed and passed.<sup>103</sup> As a result, the first payments were made to LGAs on 1 March 2001.

**Table 3.1**

**Roads to Recovery Bill 2000 timeline of significant events**

Date	Action
27 November 2000	Decision to have a special bill allowing payment direct to LGAs.
28 November 2000	Drafting instructions provided to the Office of Parliamentary Counsel.
29 November 2000	Approval sought from the Parliamentary Secretary (Cabinet) to the Prime Minister for the introduction of the Roads to Recovery Bill 2000 to Parliament on the morning of 30 November 2000 without the normal legislative approval process.
	Approval, as requested, was granted by the Parliamentary Secretary.
	Roads to Recovery Bill 2000 Explanatory Memorandum (EM) becomes available. Attached to the EM was a list, referred to as the <i>tabled list</i> which set out the local government bodies to be funded and the amounts of grants each is entitled to over the life of the program.
30 November 2000	Roads to Recovery Bill 2000 presented to the House of Representatives. Bill read a first and second time. Bill debated.
1 December 2000	Senate Rural and Regional Affairs and Transport Legislative Committee, Consideration of Supplementary Estimates hearing discussed the Roads to Recovery distributions.
4 December 2000	Debate continues throughout the day. Roads to Recovery Bill 2000 agreed to by the House of Representatives without amendment.
5 December 2000	Senate agreed the motion: 'That the provisions of paragraphs (5) to (7) of the standing order 111 not apply to the Roads to Recovery Bill 2000, allowing it to be considered during this period of sittings'.
	Roads to Recovery Bill 2000 received in the Senate from the House of Representatives. Bill read for the first and second time. Debate adjourned.
6 December 2000	Senate Selection of Bills Committee report no 21/00 tabled and adopted, recommending that the Roads to Recovery Bill not be referred to committees.
	Debate on the Roads to Recovery Bill 2000 resumed in the Senate.
7 December 2000	Last day of Parliament sitting for the calendar year.
	Debate on the bill continues. Senate agrees to the Roads to Recovery Bill 2000 without amendment.
21 December 2000	Royal assent of the Roads to Recovery Bill 2000.

Source: ANAO analysis of DOTARS documentation, Office of Parliamentary Counsel documentation, *Roads to Recovery Act 2000* and explanatory memorandum, Bills Digest No.73 2000–01, and House of Representatives and Senate *Hansard*.

<sup>103</sup> In debating the Bill, the Opposition, however, raised some concerns that the legislation had been 'rushed' but supported the Bill because it understood that local government wanted work to start as soon as possible.



**3.5** The R2R Act specifies that payments can only be used 'on the construction, upgrade or maintenance of roads'. The term road is also defined in the Act. The R2R Act contains no discretionary power to expand the definition of road, or approve any other things for the purposes of things associated with a road.

## Governance documents

**3.6** Before DOTARS could make the first payment under the R2R Program, the R2R Act required the Minister to:

- under section 5, publish in the Gazette a list of all LGAs and the amounts they were to receive; and
- under section 7, by notice in the Gazette, determine the conditions that apply to payments under the R2R Act.

**3.7** The R2R Act (section 11) also provided that the Minister may publish Administrative Guidelines in relation to payments under the Act and in relation to the Funding Conditions determined under section 7.

**3.8** The development of the R2R Act, Funding Conditions and Administrative Guidelines occurred between 20 November 2000 and 15 February 2001 (some three months). In drafting these documents, DOTARS advised the then Minister that it had consulted ALGA. The Minister was also advised that DOTARS' Internal Audit and Legal areas had cleared the documents.

## List of funding recipients

**3.9** Attached to the R2R Act Explanatory Memorandum was a list, referred to as the 'tabled list' in the R2R Act.<sup>104</sup> The tabled list set out the local government bodies to be funded and the amounts of the grant each is entitled to over the life of the Program.

**3.10** Section 5 of the R2R Act required that, as soon as possible after the commencement of the Act, the Minister must publish a list in the Gazette, setting out each amount that was set out in the tabled list and the name of the funding recipient. The names set out in the tabled list were not necessarily the correct legal names of the funding recipients. The purpose of the published list was to substitute the correct legal names of the recipients. The list was published in the Gazette on 14 February 2001.

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<sup>104</sup> This list was tabled in the House of Representatives in relation to the Bill for the R2R Act.

**3.11** On 8 May 2002, the Parliamentary Secretary to the Minister for Transport and Regional Services published a replacement list (to the one gazetted on 14 February 2001) under section 5 of the R2R Act, in relation only to the revised allocations to funding recipients in Western Australia (WA). This was a result of the amount that was initially allocated to the WA Local Government Grants Commission for distribution on Special Projects (bridges and Aboriginal access roads) being re-allocated directly to the LGAs who were to undertake the approved Special Projects (see paragraphs 5.6 and 5.7).

**3.12** As at 30 June 2005 (the nominated end date for the initial Program), funds under the R2R Act had been paid to 732 recipients amounting to \$1,199,922,181.<sup>105</sup>

*LGAs paid more than their gazetted allocation*

**3.13** Section 8 of the R2R Act addresses the issue of replacement funding recipients where a recipient ceases to exist before it has received the full amount payable to it. A replacement body must be either a local governing body or a State. Over the life of the R2R Program, there were 25 notices gazetted under section 8 of the R2R Act for name changes, or where a funding recipient ceased to exist.

**3.14** ANAO analysed the section 8 notices as gazetted, and the payments made to LGAs through the R2R Program. This analysis showed a number of occasions where an LGA had ceased to exist before it received its full funding, and its remaining funds were paid to another LGA. In addition, five instances were identified where a section 8 notice was signed by the Minister but was not gazetted by DOTARS. As a result, these LGAs received more funds than their gazetted allocation amount, as illustrated in Table 3.2.<sup>106</sup> Nevertheless, the payments made were the amounts intended for the five LGAs that received them as specified in the notices signed by the Minister.

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<sup>105</sup> See paragraphs 3.14 to 3.18.

<sup>106</sup> In addition, Ltyentye Purte (Santa Teresa) in the Northern Territory received \$20.00 more than its allocated amount. This was a simple error by DOTARS.

**Table 3.2****Replacement body in receipt of payment but no gazettal notice located**

Council	State	Total gazetted allocation (\$)	Total payments received (\$)	Difference (\$)
Gwydir Shire <sup>A</sup>	NSW	92,738	607,852	515,114
Hume Shire <sup>B</sup>	NSW	1,294,191	1,482,454	188,263
Liverpool Plains Shire <sup>C</sup>	NSW	192,790	438,227	245,437
Tamworth Regional <sup>D</sup>	NSW	927,993	1,218,123	290,130
Upper Hunter Shire <sup>E</sup>	NSW	162,425	764,791	602,366
<b>TOTAL</b>		<b>2,670,137</b>	<b>4,511,447</b>	<b>1,841,310</b>
Notes to Table: <sup>A</sup> : Gwydir Shire was paid the remaining funds from Bingara Shire (\$76,613) and Yallarois Shire (\$438,501). <sup>B</sup> : Hume Shire was paid the remaining funds from Culcairn Shire. <sup>C</sup> : Liverpool Plains Shire was paid the remaining funds from Quirindi Shire. <sup>D</sup> : Tamworth Regional Shire was paid the remaining funds from Manilla Shire. <sup>E</sup> : Upper Hunter Shire was paid the remaining funds from Scone Shire.				

Source: ANAO analysis of DOTARS records, Gazettal notices and NSW local government boundary change documentation.

**3.15** Legal advice was obtained by DOTARS in November 2005 on whether these payments were validly made under the R2R Act. The advice concluded as follows:

The payments to the new councils were not supported by the standing appropriation in the R2R Act, because the non-gazettal of notices under s.8 in relation to the new councils meant that those councils were not 'funding recipients' for those payments. Publishing a notice under s.8 specifying the new councils as replacement bodies for the 5 former councils now is possible, but this would not rectify this deficiency. However, there are sound arguments that there was, at the time the payments were made, an alternative available appropriation to support the making of those payments, which means that the making of the payments did not breach s.83 of the Constitution. There probably was, however, a breach of s.48 of the *Financial Management and Accountability Act 1997*, although given the amount involved, this may not be regarded as a material breach.

**3.16** DOTARS has two outcomes, the first of which is "A better transport system for Australia". In each Transport and Regional Services Portfolio Budget Statement (PBS)<sup>107</sup> presented to the Parliament since the

<sup>107</sup> As noted in Chapter 1, the purpose of the PBS is to inform Senators and Members of Parliament of the proposed allocation of resources to Government outcomes by agencies within the portfolio. The PBS facilitate understanding of the proposed appropriations in the annual Appropriation Bills. In this sense, the PBS' are declared to be 'relevant documents' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.

commencement of the R2R Program, payments to LGAs (including the five identified in Table 3.2) were disclosed as contributing to “a better transport system for Australia’ (that is, Outcome 1). Similarly, each DOTARS Annual Report since 2000-01 has accounted for all elements of the R2R Program, including payments to these five LGAs, as part of Outcome 1.

**3.17** However, in January 2006, DOTARS advised ANAO that, in its view, the making of payments to regional local government bodies for the purpose of the maintenance, upgrade or construction of roads would fall within the terms of its Outcome 2 (“Greater recognition and development opportunities for local, regional and territory communities”). DOTARS further advised ANAO that \$9,297,937 in annual appropriations to Outcome 2 for administered expenses was unspent and therefore available at 30 June 2005 and that arrangements had been made to record the payments against this appropriation.

**3.18** DOTARS’ view was supported by the legal advice it had obtained in November 2005. However, this advice did not address the fact that the use of the Outcome 2 administered annual appropriation was inconsistent with how all R2R payments had previously been managed and accounted for.<sup>108</sup>

#### *LGAs paid less than their gazetted allocation*

**3.19** Two LGAs were paid less than their gazetted allocation. The first was Mornington Council in Queensland. It had a shortfall of \$30,354. On 18 May 2005, DOTARS advised Council that, as a consequence of Council’s failure to provide an R2R Annual Report for 2003-04, no further payments would be made under the R2R Act although funding may be provided under Auslink Roads to Recovery.

**3.20** The second LGA that was not paid its full allocation was Gatton Shire Council also in Queensland. This Council had a shortfall of \$47,478. DOTARS discussed with Council the fact that there was insufficient expenditure and forecast expenditure to support payment of the full allocation. DOTARS records state that Council advised it that there were no works planned for the remaining funds as of 16 May 2005. Accordingly, the full allocation was not paid.

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<sup>108</sup> The total paid to the five LGAs under the initial R2R Program was \$4,511,447. The DOTARS advice means that \$2,670,137 of this amount (59 per cent) will be accounted for against Outcome 1 (as was 99.8 per cent of all R2R payments), with the remaining \$1,814,310 (41 per cent of payments to these five LGAs, or 0.2 per cent of all R2R payments) accounted for against Outcome 2.

**3.21** A further 13 LGAs in ANAO's sample of 93 also had insufficient forecast and actual expenditure to justify payout totalling \$27,642<sup>109</sup>. In these instances, there was no evidence that DOTARS brought this to the attention of the relevant LGAs. In each instance, the full allocation was paid although there was no evidence available to ANAO that the LGA had works planned for the remaining funds. On this issue, DOTARS advised ANAO as follows in December 2005:

This was done for administrative simplicity at the end of the Program. The councils involved would need to acquit all money received and this was sufficient assurance that the funds provided would in fact be spent on complying projects. Most of the councils, ... including the four largest, had projects listed on their works schedule for which the total cost well exceeded their allocations. To complete these projects, the council needed to use their own funds. In these circumstances, they would logically use their *Roads to Recovery* funds first.

### Recommendation No.3

**3.22** ANAO *recommends* that DOTARS limit Auslink Roads to Recovery payments to the amounts supported by actual and forecast expenditure included in Quarterly Reports submitted by Local Government Authorities.

#### *DOTARS response*

**3.23** DOTARS agreed to the recommendation and commented that 'this is reflected in clause 4.10 of the funding conditions determined by the Minister on 2 August 2005 for the Auslink *Roads to Recovery* Program. The payment formula is in clause 6.11 of the Notes on Administration.'

### Funding Conditions

**3.24** The R2R Program operated under Funding Conditions determined by the then Minister for Transport and Regional Services under section 7 of the R2R Act. They were signed by the then Minister on 7 February 2001. The Conditions were gazetted on 15 February 2001.

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<sup>109</sup> The amounts for individual LGAs ranged from \$1 to \$7,882. However, it needs to be recognised that the amount of unsupported payments may have been greater or less because of errors by some LGAs in reporting of actual expenditure. For example, as part of ANAO's examination of Devonport City Council's R2R projects, ANAO examined supporting financial records for six of Council's 17 projects. This examination identified errors such as duplicated costs and inclusion of GST in the expenditure figures reported in Quarterly Reports. After correcting these errors, in July 2005 ANAO raised with Council an apparent shortfall of \$79,460 in R2R funds paid to Devonport City Council that had not been spent, or forecast to be spent, on R2R Projects. Following provision of further information from Council, in October 2005, the shortfall was recalculated at \$9,682. (The amount overpaid based solely on the Quarterly Report was \$4,242.) At this time, Council advised ANAO that, under advice from DOTARS, it intended to spend the shortfall on additional works on a road included as an R2R project and include this expenditure as an addendum to the 2004–05 R2R Annual Report.

**3.25** The key conditions were:

- money received under the Program must be used for roads expenditure;
- money received under the Program must be properly accounted for;
- an LGA must maintain the level of roads expenditure which it funds otherwise than under the R2R Act, and provide a statement to the Department that it has done so;
- an LGA must comply with the Guidelines, including erecting signs acknowledging the Commonwealth's role in respect of all works funded under the Act;
- an LGA must provide a schedule of works to the Department in the form specified in the Guidelines, before a payment can be paid under section 6 of the Act;
- an LGA must provide Quarterly Reports to the Department on the expenditure of funds provided under the Act, in the form specified in the Guidelines; and
- the CEO, or equivalent, of each LGA must, in accordance with the Guidelines and no later than 30 September each year, provide an Annual Report to the Department.

**3.26** The R2R Act provided the Minister with the power to revoke or vary any of these conditions. No amendments were made over the life of the R2R Program.

### **Administrative Guidelines**

**3.27** Pursuant to section 11 of the R2R Act, Administrative Guidelines were published that set out payment arrangements and related matters. As noted earlier, the gazetted Conditions state that an LGA must comply with the Guidelines.

**3.28** The purpose of the Administrative Guidelines was to explain how the R2R Program worked. The Guidelines stated they were designed to help LGAs and DOTARS work together to achieve the objectives of the Program. They set out important information for LGAs, especially about the requirements to obtain grants under the Program. The Guidelines were divided into three parts:

- Part A: General
  - outline of the R2R Program
  - definitions

- departmental contacts
- Part B: Financial and Reporting
  - eligible and ineligible road expenditure
  - information required before payments could be made
  - smaller recipient issues
  - payments to LGAs
  - quarterly reporting requirements
  - payment and reporting schedule
  - annual reporting requirements
- Part C: Public Information Guidelines
  - general
  - signs
  - opening/commemorative ceremonies

**3.29** Three versions of the Guidelines were published over the life of the R2R Program. Administrative Guidelines were initially published on 9 February 2001 by the authority of the Minister for Transport and Regional Services.

**3.30** Revised Guidelines were issued in February 2003, under the authority of the Parliamentary Secretary to the Minister for Transport and Regional Services. The areas of substance that differ between the February 2001 and February 2003 Guidelines were:

- reference to an 'annual' works schedule was removed;
- the statement regarding 16 equal quarterly payments to LGAs was removed;<sup>110</sup>
- the correction of a factual error in the Quarterly Report proforma;
- information regarding the commencement arrangements was deleted; and
- contact details and website addresses were updated.

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<sup>110</sup> In December 2005, DOTARS advised ANAO that:

while it was originally anticipated that the sixteen equal payments would be the norm, the Guidelines were written to allow for exceptions to match cash flows. It was realised shortly after the Program began that the sixteen equal payments approach was not realistic and that the Quarterly Reports provided by councils were a statement of their cash flow needs. It was considered that there was sufficient flexibility in the Guidelines to accommodate payments based on cash flow. In time, as noted, the Guidelines were updated to reflect the procedures used to ensure that councils were not financially disadvantaged.

**3.31** A further revised set of guidelines was published on 28 April 2004 by the authority of the Minister for Local Government, Territories and Roads. This version amended the Guidelines to reflect the Government's new signage requirements<sup>111</sup> and to make it explicit that only external auditors may sign R2R Annual Reports.

## **R2R Circulars**

**3.32** In 2001, DOTARS began providing information notices on the welcome page of the R2R online system. These notices reminded LGAs of specific issues relating to Quarterly Reports. In addition, on 15 January 2002, DOTARS began issuing circulars to LGAs. Recent circulars are available on the R2R website.

**3.33** The information contained in the circulars usually related to day-to-day administrative matters. Examples included: the requirement to update information in the works schedules prior to submitting the relevant Quarterly Report; reminding LGAs that Annual Reports were to be submitted; and staff changes within the DOTARS R2R team.

**3.34** In addition, sometimes the circulars addressed more strategic issues. This included: the criteria to be used for assessing hardship claims as a result of the Program funding rephasing; advice about the Auslink Green Paper; and the extension of the R2R Program.

## **Eligible projects**

**3.35** In order to provide an effective control over expenditure regarding R2R funds on allowable works, there needed to be a shared understanding between DOTARS and the funding recipients of the meaning of 'road project' under the R2R Act.

**3.36** By February 2001, DOTARS had received queries from numerous local councils about the particular types of work that were acceptable expenditure under the R2R Act. On this issue, on 23 February 2001, DOTARS advised the Senate Rural and Regional Affairs and Transport Legislation Committee (as part of the Consideration of Additional Estimates) that the biggest issue that LGAs had raised was questions in relation to what were eligible works under the Program.<sup>112</sup>

**3.37** While DOTARS responded to specific questions raised by LGAs, the R2R Administrative Guidelines were not expanded to clarify the position.

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<sup>111</sup> Specifically, 'A Federal Government Initiative' was changed to 'An Australian Government Initiative'.

<sup>112</sup> Hansard, Senate—*Legislation*, Rural and Regional Affairs and Transport p. 295, Friday 23 February 2001.



DOTARS also did not issue guidance (such as through the R2R Circulars) to all LGAs regarding eligible and ineligible projects.

**3.38** In this context, ANAO's analysis of reported works projects delivered using R2R funds by the sample of 93 LGAs revealed that a shared understanding was, at times, lacking. For example, a number of LGAs advised ANAO of items they considered to be ineligible expenditure. In this context, Hornsby Shire Council in New South Wales advised ANAO that it considered wharves, footpaths, car parks, street lighting energy costs, water transport and other expenditure such as street tree maintenance was ineligible R2R expenditure. Similarly, the City of Salisbury in South Australia, considered that footpaths were generally excluded from eligible projects under the R2R Program. However, ANAO noted that some of the items mentioned by these two LGAs have been R2R projects funded by other LGAs:

- York Shire Council in Western Australia, included two projects titled 'footpath construction within the Townsite'. Reported expenditure totalling \$177,885 was charged to the R2R Program. There were also other instances where footpath construction was included as part of kerb and gutter projects;<sup>113</sup> and
- Beverley Shire Council, also in Western Australia, had three projects in its works schedule titled 'tree lopping'. Reported expenditure on these projects amounted to \$146,843. At other times, vegetation clearance and tree lopping were included as part of the project descriptions.<sup>114</sup>

**3.39** Although inconsistent practices were noted, ANAO is aware of only one instance where an LGA spent R2R funds on a project that DOTARS considered ineligible for R2R funding. Specifically, the City of Swan in Western Australia, spent \$140,000 on road sweeping in 2001. In December 2005, DOTARS advised ANAO that it would have been difficult to enforce recovery of funds used for street sweeping as, technically, this is a recognised part of street maintenance. DOTARS further advised that street sweeping has been excluded from funding eligibility under the Auslink Roads to Recovery Program.

**3.40** On 1 July 2005, the first day of the Auslink Roads to Recovery Program, DOTARS issued *Roads to Recovery Circular 2005/5*. Among other things, this circular provided the following advice on eligible projects:

...while projects eligible for funding will largely be as for the previous programme, there will be some tightening of compliance requirements in

<sup>113</sup> For example in the City of Tea Tree Gully in South Australia, six R2R project descriptions included the provision of footpaths. Reported expenditure on these six projects amounted to \$2,738,000.

<sup>114</sup> For example, in York Shire Council in Western Australia, nine projects of this nature were undertaken. Reported expenditure amounted to \$389,151.

terms of funding eligibility for bicycle paths (only when directly associated with a road) and footpaths (only when constructed as part of a road construction or road upgrade project).

Capital equipment purchases, street sweeping, rehabilitation studies, off road car parks, street furniture, generic transport planning studies and staff training will not be funded under the new programme.

**3.41** In December 2005, DOTARS advised ANAO that this information is also in the Notes on Administration and will be highlighted in regional information seminars to be held in 2006 and the material the Department was preparing for councils.

#### *Reporting of administrative costs*

**3.42** Once a project is accepted as eligible, the composition of allowable charges should also be considered.

**3.43** On 5 August 2004, DOTARS issued *Roads to Recovery Circular 2004/12* in response to being asked by LGAs what administrative costs were allowed. The Circular stated that LGAs may allow their direct administrative costs but not overheads. The Circular also stated 'we have not set a fixed percentage but expect a reasonable approach by councils in this matter'.

**3.44** ANAO's analysis of LGAs expenditure highlighted a range of practices amongst councils. For example, the Shire of Denmark in Western Australia's financial system data showed that overheads were charged against individual projects. In advice to the ANAO on 14 September 2005, Council advised that:

The shire uses the term "overheads" to reflect any cost that is not the direct salary cost but includes items such as construction workers superannuation, sick leave, annual & other leave, workers' compensation insurance, protective clothing, industry allowance, medical examination costs etc. These items are a direct labour cost for undertaking the project and could be charges as an all encompassing hourly rate for the job.

Of the "overheads" charged to the jobs approximately 45 per cent relates to these direct labour costs, the remaining 55 per cent relate to the costs of the Supervising Engineer, Assistance Engineer, Works Supervisor and their on-costs etc. I believe that it is therefore reasonable to consider 45 per cent of the "overheads" charged as labour and 55 per cent of the overheads as an administrative charge.

**3.45** In comparison, Northern Midlands Council in Tasmania charged a percentage to each project. Council advised ANAO on 16 August 2005 that:

'Oncosts' relate to a direct cost to Council for payment of employees superannuation, workers compensation insurance, payroll tax and leave. This is allocated by charging a 43 per cent oncost amount to wages allocated to each job throughout the organisation.

'Internal Supervision Costs' calculated at 12 per cent is the cost to provide the clerk of works on the project, contribute to the Work Manager's planning and design costs and contribute to the works depot costs that house the plant and materials. This is the same amount as allocated to all other Council projects including any tendered works.

The 6.5 per cent 'Internal Admin' is for the planning, contract management and design work provided by Council's Engineering staff for jobs not performed by Council's Works Department, but instead performed by external contractors.

There has not been any governance overheads allocated to R2R projects.

**3.46** In other instances, such as Gladstone City Council in Queensland, overhead costs were charged by LGAs to an R2R project on an hourly basis. There were also LGAs, such as Melton Shire Council in Victoria, that did not charge any administrative costs or overheads to their R2R projects.

## Recommendation No.4

**3.47** ANAO *recommends* that DOTARS instigate measures to promote, at an early stage of the Auslink Roads to Recovery Program, a shared understanding with Local Government Authorities on the extent to which administrative costs may be charged to the Program, and what may be included as part of these costs.

### *DOTARS response*

**3.48** DOTARS agreed to the recommendation and commented that 'this matter is covered in clause 3.2 of the Notes on Administration issued by the Department in July 2005.'

## Reporting arrangements

**3.49** As part of the Government's commitment to e-commerce, the R2R Program was designed to operate via the internet with data entered into a secure website. In addition, most communication from DOTARS to LGAs was intended to be via email.<sup>115</sup>

**3.50** Access to the web site was controlled by password. In this context, the secure web site had a number of sections, including:

- payee details which included contact details for the relevant LGA as well as banking details for electronic transfer of funds. LGAs registered for the Program by entering their payee details on the secure web site;

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<sup>115</sup> Part 3: Report on Performance, DOTARS departmental Annual Report 2000–01, p.155.

- a works schedule listing and describing R2R projects including their estimated cost and start and completion dates;
- Quarterly Report of actual and forecast expenditure on each of the projects included in the works schedule; and
- change password, which was added during 2001-02 to provide additional security.

**3.51** Quarterly Reports submitted by LGAs provided the basis on which R2R payments were made to LGAs. As part of this performance audit, ANAO analysed the Quarterly Reports submitted by those LGAs selected in the sample. In this context, Chapter 4 includes ANAO analysis of payment controls and cash management issues.

## **Works Schedules**

**3.52** The Government considered LGAs best placed to make decisions on road investment at the local level. The R2R Program reflected this by giving LGAs the freedom to use the funds as they wished, as long as it was for expenditure on roads (as defined by the R2R Act).

**3.53** While LGAs could decide the projects that they would deliver using the R2R funds, certain information requirements, as set out in the Administrative Guidelines, were to be submitted to DOTARS before a payment could be made. This included a works schedule. The Guidelines defined 'works schedule' as a proposal setting out works for which funding is being sought under the Act.

**3.54** The works schedule form was on the secure website and could be lodged electronically through the web site or submitted in hardcopy. The works schedule was to contain information on the location and nature of the proposed works and the problems to be addressed by the works. Works schedules could be amended at any time, although some LGAs advised ANAO that they were unaware of this.

### *Importance of work schedules*

**3.55** The works schedules were relied upon by DOTARS in making payments to LGAs. Specifically, they provided details to enable DOTARS to assess whether proposed works were eligible under the R2R Act. Works schedules were also a public accountability mechanism for the Program.<sup>116</sup> In this respect, *Roads to Recovery Circular 2002/16* stated that:

Copies of council work schedules plus their completion status are displayed on the Department of Transport and Regional Services' public web site. The

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<sup>116</sup> Quarterly Reports and R2R Annual Reports submitted by LGAs to DOTARS are not public documents.

web site is a public accountability mechanism and is frequently used by the office of the Minister for Transport and Regional Services.

**3.56** On nine occasions DOTARS reinforced to LGAs the importance of works schedules being kept up to date. However, ANAO's examination of a sample of 93 LGAs revealed that, in many instances, the works schedules did not reflect the required information, or were inaccurate.

#### *Location of works*

**3.57** The location of the proposed works being funded by the R2R Program, as reported in the works schedule, was inadequate for 34 per cent of the projects inspected by ANAO as follows:

- the most common discrepancy involved LGAs not specifying the location (for example, by identifying relevant crossroads or chainage) where the project involved work on a section of the identified road rather than the entire road;
- there were also instances where the location descriptions were so broad as to make identification of the works themselves difficult; and
- in other instances, the works schedule description was simply inaccurate.

**3.58** Table 3.3 provides examples of each type of inadequacy.

**Table 3.3**

**Examples of works schedules inadequacies in relation to works locations**

Location not specified	Location too broad	Location inaccurate
<p>Chinchilla Shire Council (Queensland) identified the location of Project No.10 simply as 'Auburn Road'. The proposed works stated that 10 kilometres of work was to be undertaken but it was unclear where. The works were actually being undertaken from chainage 110 kilometres to 118 kilometres.</p>	<p>The Shire of Jerramungup (Western Australia) had a project titled 'Guidepost audit and erection' with the works description being 'guide posting the shire'. Given the broadness of this project and its description in Council's works schedule, ANAO was unable to confirm whether this project had been undertaken through a visual inspection of the site.</p>	<p>Coolamon Shire Council (NSW) reported its Project No.6 as 'Matong North Road (SR120) 15.3–21.5 north of Matong: Resealing 15.3–21.5'. Following ANAO raising concerns about the accuracy of the works description, the works schedule was amended to reflect that work was actually undertaken between chainage 6.5 kilometres and 11.7 kilometres.</p>
<p>Glamorgan Spring Bay Council (Tasmania) identified the location of Project No.21 as Dolphin Sands Road Swansea. The proposed works was for the reconstruction of failed pavement including a two coat seal. Rather than reconstruct the whole road as suggested by the description, works were only done between chainage 8.70 kilometres and 9.68 kilometres.</p>	<p>Redland Shire Council (Queensland) included two projects in its works schedule for sealing 'various streets in the Redland Shire Mainland'. In total, \$450,000 was charged to the R2R Program for these two projects. To enable ANAO to inspect the works, Council provided ANAO with details of the 58 roads on which work was undertaken.</p>	<p>Moorabool Shire Council (Victoria) Project No.7 was described as 'Yendon Egerton Road, 2.9 to 5.5km from Yendon – reconstruction of existing pavement.' However, at the time of ANAO's site visit, Council advised ANAO that the correct chainage was 8.7 kilometres to 10.2 kilometres.</p>
<p>ANAO inspected two Aramac Shire Council (Queensland) projects on Torrens Creek Road. The works schedule descriptions did not identify the location of work undertaken with R2R funds. ANAO found that the work was undertaken between chainage 50.2 kilometres to 57.7 kilometres, chainage 57.7 kilometres to 63.55 kilometres and chainage 77.45 kilometres to 87.84 kilometres.</p>	<p>Manly Council (NSW) Project No.9 was described as 'various sections of cycleways to be constructed in Manly area'. ANAO was unable to determine specifically where work had been performed and, as a result, a site visit did not occur for this Project.</p>	<p>Jericho Shire Council (Queensland) Project No.18 on Aramac Road was described as 'Road realignment and formation' however ANAO found that the work undertaken was actually limited to a grid upgrade.</p>
<p>The District Council of Yorke Peninsula (South Australia) Project No.5 on the Port Clinton to Maitland Road was described as 'Road construction and sealing – extension of Work No.1.' This description did not provide a sufficient level of detail to determine the length of the extension work. In comparison, Project No.1's description was 'Unsealed road. 3km section to be constructed and bituminised.'</p>	<p>The City of Greater Bendigo (Victoria) had a project inspected by ANAO titled 'Resealing of local roads' with a works description of 'Reseal road pavement'. To assist with inspection of the works, Council provided ANAO with a spreadsheet that identified 34 individual works conducted under this project. In comparison, another resealing project undertaken by Council specifically identified in the works schedule the roads on which work was undertaken.</p>	<p>The Shire of Corrigin (Western Australia) Project No.2 was described as 'Cyclists currently utilise roadway. We are installing 2m wide cycle paths for safer cycling'. This indicated that cycle paths would be constructed within the township, whereas the actual work undertaken consisted of installing small sections of path to join up existing dual-use pathways throughout the township, and repair of substandard sections.</p>

Source: ANAO site visits and analysis of DOTARS and Council data and related correspondence.



*Problem to be rectified and works proposed*

**3.59** To fairly reflect the outcomes of the R2R Program, it was important that reports to the Australian Government accurately reflect the full extent of the work undertaken with R2R funds. In addition, as mentioned above, works schedule descriptions of the problem and works proposed provided necessary information for DOTARS to assess the eligibility of LGAs' proposed use of R2R funds.

**3.60** The R2R Administrative Guidelines stated that the works schedule should contain information on the nature of the works proposed and the problems to be addressed by the works. In this respect, 46 per cent of projects examined by ANAO included both the problem and an adequate description of the proposed works solution. However, the remaining 54 per cent of projects did not include the nature of the works proposed and/or the solution being employed. Table 3.4 provides examples of both adequate and inadequate descriptions.

**Table 3.4**

**Examples of works schedule reporting of problem and works proposed**

Projects that included both the problem and an adequate description of the proposed works	
<p>The City of Sydney in New South Wales Project No.11 was for works on Elizabeth St from Foveaux St to Albion St. The reported description was 'rough and potholed pavement is proposed to be profiled and resealed'.</p>	
<p>Gilgandra Shire Council (New South Wales) included informative descriptions for its works examined by ANAO, which largely involved work on gravel roads. For example, Project No.14 on Arthursleigh Road was described as 'Gravel pavements have eroded leaving little support for traffic. Replace gravel pavement'.</p>	
<p>West Tamar Council (Tasmania) Project No.2: Greens Beach Road between golf club access road and end of road was described as 'Dust problem at adjacent caravan park. Last section of unsealed road in this location, therefore high maintenance cost. Safety issue for pedestrian access to beach and higher standard road for tourist traffic. Seal road and install road humps.'</p>	
Projects where the nature of proposed works was not included	
<p>Devonport City Council (Tasmania) Project No's 3 and 7: Devonport Road near Shell Depot to Railway Line, Devonport were described as 'Failed road pavement and inadequate width with high heavy vehicle use and port access' and 'Pavement failures and inadequate width with high heavy vehicle use and port access' respectively. ANAO found that the work actually involved patching of selected parts rather than a more major rehabilitation.</p>	
<p>West Tamar Council (Tasmania) Project No.1: Camms Road from Kayena Road junction for a distance of 1100 metres was described as 'Unsealed section of road with safety issues due to sheltered moist location making it difficult to maintain a suitable surface. Areas developing for tourism and economic development – viticulture.' The works actually involved reconstruction and sealing.</p>	

Source: ANAO site visits and analysis of DOTARS and Council data and related correspondence.



**3.61** In addition to inadequacies in the works schedules submitted to DOTARS, ANAO project inspections highlighted that approximately 32 per cent of projects were not undertaken as reported. Some were understated (in that more work had been done than indicated in the works schedule description) while others were overstated.

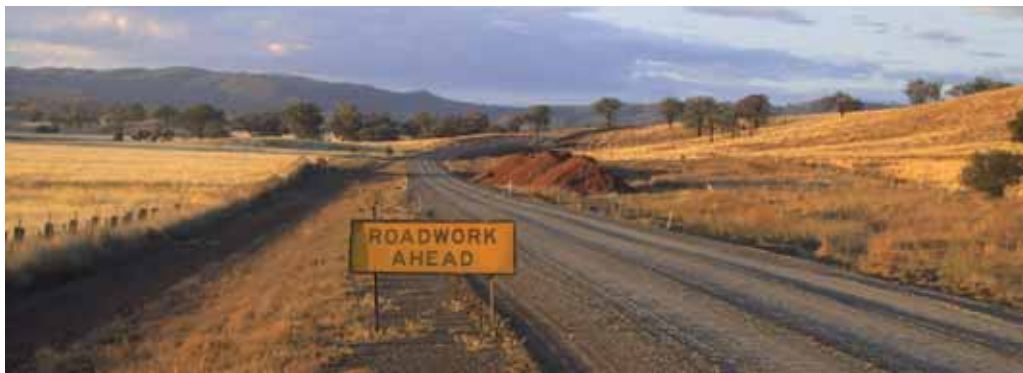
**3.62** Projects examined by ANAO that involved an understatement of the work undertaken with R2R funds included the following:

- ANAO examined two projects in Stanthorpe Shire Council in Queensland. For both projects, the works schedule understated the length of the roadworks and the nature of the work was more involved than reported by Council. In August 2005, Council wrote to ANAO stating that it 'apologises for not having updated its final project details for the two projects to reflect the additional work completed from the available funds'.
- In July 2005, the City of Monash in Victoria confirmed to ANAO that 'the extent of works on the various projects has been understated as Council undertook additional works such as the construction of roundabouts, installing drainage, refurbishing a couple of additional small side streets and reinstating bluestone kerb and channel. Council will ensure that future Roads to Recovery reports will accurately reflect the full extent of the works'.
- ANAO inspected a project in Blackall Shire Council in Queensland where the works description was for sealed inverts and floodways to 10 locations. However, information provided to ANAO by Council together with ANAO's on-site inspection confirmed that work at 13 locations was funded under this R2R project.

**3.63** There were other instances where the project description overstated the works funded by the R2R Program to varying degrees. Case Study No.3.1 provides an example from Gunnedah Shire Council (New South Wales) inspected by ANAO where the extent of the works and the nature of the proposed works were both overstated.

### Case Study No.3.1: Gunnedah Shire Council, New South Wales—Kelvin Road

The Shire of Gunnedah in the North West of New South Wales covers an area of 5,092 square kilometres and has a population of 12,819. Gunnedah Shire Council received an R2R allocation of \$2,528,266. Over the life of the R2R Program, five projects were undertaken by Council. The first, and most expensive, of these involved Kelvin Road which had an estimated cost of \$1,102,420 as of the February 2005 Quarterly Report. The following photograph shows works on this road at the time of ANAO's April 2005 site inspection.



As part of this performance audit, ANAO examined the Kelvin Road project. ANAO's analysis revealed that there had been a significant change in the nature of the works reported by Council for this project:

- Each of the 11 Quarterly Reports submitted by Council between September 2001 and August 2004 stated that the project involved bitumen sealing of Kelvin Road between Hawker Bridge and the intersection at Main Road 357. Up until and including the August 2004 Quarterly Report, Council had reported actual expenditure totalling \$792,700 on a bitumen sealing project. However, the November 2004 and February 2005 Quarterly Reports (the last Quarterly Report for this Council) made no reference to bitumen sealing. Instead, the description was "gravel to bitumen standard".
- The description for this project stated that it commenced at the Hawker Bridge. An ANAO on-site inspection of this project revealed that work had not been undertaken from Hawker Bridge but commenced some five kilometres further along the road.

In response to these issues, on 30 September 2005, Council advised ANAO that:

Throughout the course of the entire R2R Programme, Council had to either delay commencement of individual projects or close construction works due to a lack of water during the drought. This was particularly the case with both of the Kelvin Road projects and, as a result, made project expenditure forecasting quite optimistic and actual project works difficult to schedule. As previously advised, the entire Roads to Recovery Project has been administered within Council by a number of people and I concede that the original individual project descriptions were quite vague.

...I gather it was Council's original vision to realign the Kelvin Road from the Hawker Bridge through to the previously reconstructed length near the Main Road 257 intersection without any plans, estimated costs or land acquisitions. As the project progressed, it became apparent that the costs to undertake all of this were prohibitive for the benefits, particularly between Rangari gateway and the Hawker Bridge. Accordingly, a survey was undertaken from Rangari gateway to the previous reconstruction and, although designed to bitumen standard, it was never intended to attain final design levels and bitumen seal such. On behalf of my predecessors I sincerely apologise for any misunderstanding with respect to this project as between October 2001 and October 2004 the inference should have indeed have been realignment to bitumen standard and this was adjusted with my first involvement in the reporting.

In February 2006, Council reaffirmed to ANAO that at no stage did it intend to undertake works to the point of a final bitumen seal. Gunnedah Shire Council has also advised ANAO of steps it was proposing to take to address this and other reporting and accountability issues identified by the ANAO performance audit. This included engaging Council's auditors to undertake a review and taking steps to tighten up its internal systems to ensure such an occurrence is not repeated, including: the description of future works being more specific in terms of the nature of work to be undertaken and the distance involved; projects will be dissected into shorter time frame components; and all reports submitted by Council will be internally audited before submission to DOTARS.

Source: ANAO site visit and analysis of DOTARS and council data and related correspondence.

**3.64** Overstatement can also occur where projects are only part-funded by the R2R Program but this is not identified in works schedules. A good example of recognising jointly funded projects was provided by Griffith City Council (New South Wales). Its works schedule description for Project No.11 on Banna Ave Griffith between Ulong and Benerembah was described as 'Upgrade Drainage, Medians, K&G, Parking areas, and Pavement. Existing facilities due for replacement and starting to fail. Last stage of CBD Upgrade. Jointly funded by Council, RTR, RTA.'<sup>117</sup> However, often LGAs did not identify in their works schedules that projects were jointly funded. Examples identified included:

- Port Stephens Council in New South Wales advised ANAO in June 2005 that each of the seven projects examined by ANAO was only part-funded by R2R with the balance of the funding obtained from developer contributions, State Government grants, contributions from adjoining property owners and others.
- Similarly, in August 2005, Brisbane City Council in Queensland commented to ANAO that it had attributed to the R2R Program a higher level of project funding than was funded by the Program. For example, in relation to two of the projects examined by ANAO, Council commented specifically as follows:

The projects 7 and 15 represent two stages of a continuous project. These projects were only part funded through Roads to Recovery programme. The total cost of the combined projects was \$12.7 million, the Roads to Recovery portion was \$7.3 million.

The descriptions provided by the projects managers were summary descriptions of the projects. For project 15 the Quarterly Report description was not updated during the life of the project even though the scope of the works actually completed increased as per the [R2R] Annual Report.

- Included in the projects for Maitland City Council in New South Wales was a project for connection works to link in with construction of a rail underpass. What was not stated in the works schedule was that this project comprised a very small component of a \$12 million project. In June 2005, Council advised ANAO that, 'as it is only the intersection and costed at only \$35,000, erecting Roads to Recovery signs would be misleading. Signs have not been ordered.'

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<sup>117</sup> Similarly, Pine Creek Community Government Council (Northern Territory) Project No.2 on Umbrawarra Gorge Road with an estimated cost of \$140 000 was described as 'Upgrade of Copperfield Creek Crossing—installation of culverts, head walls and sheeting and drainage of entry and exit to crossing—total cost of works is \$250 000 balance of contribution to come from Department of Planning, Infrastructure and Environment (NT Govt).'

3.65 There were also a small number of projects that had not been undertaken at the time of the visit. Case Study No.5.2 in Chapter 5 provides one example. The following photographs show two other examples.



Strathbogrie Shire Council, Victoria, Project No.58: Longwood-Pranjip Road, Pranjip (chainage 6160m): replace existing timber bridge to allow heavy vehicle access (\$64,000). Photo taken 18 August 2005.



Glamorgan Spring Bay Council, Tasmania: Project No.27: Melbourne Street, Esplanade to Vicary Street, Triabunna—Failed pavement, open gutters. Stormwater drainage construction (\$20,000). Photo taken 7 July 2005. Work commenced August 2005.

### *Start and completion dates*

**3.66** Start and completion dates could affect the timing of payments<sup>118</sup> to the LGA. The R2R Guidelines specified that R2R signs be erected at each end of the works when work began, and be maintained for two years after the project was finished. Accordingly, start and completion dates were also relevant to the R2R signage requirements.

**3.67** The approach to determining start and completion dates was not defined in the R2R governance documents.<sup>119</sup> As a result, inconsistent practices have been adopted by LGAs.

**3.68** For example, the Shire of Warwick in Queensland's practice was to report the start date as the commencement of construction. But the completion date reported was when the project was completed for financial purposes (that is, when all payments had been made and costs finalised).

**3.69** In comparison, Hornsby Shire Council in New South Wales' practice was to report both dates based on the timing of construction. Its completion date was reported when practical completion was achieved and the roadway was open for vehicular use. Council's advice to ANAO on this matter was that, in the absence of specific guidelines concerning completion dates, it was of the view that the correct date to use was when work was complete in contractual terms.

**3.70** Another approach was to report the start date as when initial design work commenced. This approach was adopted by Queanbeyan City Council in New South Wales. Actual construction on the project in question did not begin for many months.

**3.71** Other LGAs reported broad periods of time rather than precise dates. For example, the Shire of Ravensthorpe in Western Australia received its entire R2R allocation of \$1,167,790 in June 2001 as an accelerated payment. All its projects were reported in the works schedule with start dates of 1 July 2001 and completion dates of 31 December 2001. Information provided to ANAO by Council revealed that works did not commence until 11 February 2002 and were completed in May 2002.<sup>120</sup>

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<sup>118</sup> On occasion, DOTARS reduced forecast expenditure figures submitted in Quarterly Reports where it was apparent that the project was not scheduled to be undertaken in the ensuing three months.

<sup>119</sup> In response to a question from City of Swan in Western Australia regarding whether the start and completion dates are the actual or anticipated dates for the entire project, DOTARS advised that 'the "Start" and "Completion" dates is a hard one as it is loosely defined'. Council was also advised that the issue is further complicated when R2R funds only part-fund the works being undertaken.

<sup>120</sup> Another example involved Lithgow City Council in New South Wales. Up until February 2005, this Council reported the full financial year as the duration for all its projects. That is, all projects had a start date of 1 July of the relevant year and a completion date of 30 June of the next year.

3.72 In addition to inconsistencies, there were also instances identified where the start and completion dates reported to DOTARS were incorrect. Case Study No.3.2 illustrates this issue.

### Case Study No.3.2: Brighton Council, Tasmania—Various Projects

Brighton Council is a small urban Council located approximately 25 kilometres north-east of Hobart. It is traversed by the Midland Highway, the major corridor linking the north and south of Tasmania. Its R2R allocation was \$574,993.

Brighton Council undertook seven projects with its R2R allocation. ANAO examined the three most recent projects. Prior to ANAO's July 2005 site inspection, Council provided ANAO with data for each of the three projects on the actual the start date, completion date and expenditure. Council also provided ANAO with greater detail of the scope of works. This data revealed that Brighton Council's most recent (August 2004) Quarterly Report and the current works schedule were inaccurate in relation to each of the projects.

For example, the works schedule for Project No.7 stated that it involved reconstruction and sealing of a section of street of Cartwright Street in the town of Brighton. The works schedule included a start date of 1 July 2004, completion date of 30 September 2004 with the August 2004 Quarterly Report stating no expenditure had been incurred at that time but expenditure of \$100,000 was forecast. Council advised ANAO that work actually started on 31 August 2004 and was completed by 31 December 2004 at a cost of \$248,246. In terms of the scope of works, Council advised ANAO as follows:

The scope of this project changed substantially due to the availability of inexpensive gravel nearby and safety issues resulting from the considerable racetrack and residential developments in the immediate area. The new scope changed from the reconstruction and sealing of approximately 510 meters to the reconstruction of approximately 510 metres of Cartwright Street and 900 metres of Westwood Street and the construction of 380 metres of new part of Cartwright Street.

As shown by the following photograph of Cartwright Street taken by ANAO on 8 July 2005, the changed scope involved gravel reconstructions with no sealing work undertaken.



Source: ANAO site visit and analysis of DOTARS and council data and related correspondence.

**3.73** In December 2005, DOTARS advised ANAO that it acknowledged that there have been difficulties with start and completion dates. DOTARS further advised that it proposed to issue advice on this matter to LGAs.

**3.74** In February 2006, DOTARS further advised ANAO that it is not possible for the terms 'start date' and completion date' to cover all the possibilities of the meaning that exist. Consequently, when the Auslink information technology system is updated, DOTARS stated that it proposes to expand the information collected to include commencement of planning; commencement of construction, completion of construction; and financial completion.

## Recommendation No.5

**3.75** ANAO *recommends* that DOTARS improve the accuracy and usefulness of works schedules by:

- (a) analysing works schedules submitted by Local Government Authorities in order to promote a consistent minimum standard of works identification and specification;
- (b) providing Local Government Authorities with clear rules on the specification of start and completion dates to be included in works schedules; and
- (c) implementing a risk-based program of site inspections that, among other things, carefully scrutinises the accuracy and completeness of works schedule data relied upon when funding Auslink Roads to Recovery projects.

### *DOTARS response*

**3.76** DOTARS agreed to all parts of the recommendation and commented that:

No.5(a): Agree. This process has been in place from the first payment under the Auslink Roads to Recovery Program in September 2005. Quarterly reports are checked as they are completed during the reporting periods and councils contacted where the descriptions are inadequate. This process automatically updates the works schedules.

No.5(b): Agree. The Department has prepared new definitions viz 'commencement of planning', 'commencement of work', 'completion of work' and 'financial completion'. Funding conditions (clause 4.2(e)) will be amended and implemented when the new Auslink IT [information technology] support system is in place, about July 2006.

No.5(c): Agree. These site inspection audits are already underway and financial audits will commence in mid 2006.

## Changes made for Auslink Roads to Recovery Program

**3.77** The Auslink Roads to Recovery Program operates under similar arrangements to the R2R Program. The Minister for Transport and Regional Services determined a list specifying the funding recipients and new funding conditions to apply to payments under the Auslink Roads to Recovery Program.

**3.78** The Notes on Administration (in effect, replacing the R2R Administrative Guidelines) were issued by the Department to provide details about the Auslink Roads to Recovery Program's administration, and for use by LGAs in conjunction with the funding conditions. Rather than being published by the authority of the Minister, as occurred under the R2R Program, the Notes on Administration were provided to the Minister for information.

**3.79** DOTARS advised ANAO in December 2005 that the difference in approach between R2R (Guidelines issued by the Minister) and Auslink Roads to Recovery (Notes on Administration issued by the Department) reflects the differences in legislation.<sup>121</sup> The intention was that all legally binding material would be in the Funding Conditions and that the Notes on Administration would be a users' guide to the Program.

**3.80** The Auslink Roads to Recovery Program has an increased emphasis on funding recipient accountability and reporting. The funding conditions established as part of Auslink Roads to Recovery were strengthened to take into account issues raised during the course of the ANAO performance audit. Program administration improvements identified by DOTARS are also being introduced to improve monitoring of LGA compliance with the Auslink Roads to Recovery Program Funding Conditions.

### Reporting changes

**3.81** Under the initial R2R Program, LGAs were expected to keep their works schedules up to date. For Auslink Roads to Recovery, this has been made a requirement of the Funding Conditions.

**3.82** In R2R, LGA quarterly reporting and payment schedules were offset by one month against the standard quarters. That is, Quarterly Reports were able to be submitted as follows:

- for the three months to 31 July, by the middle of August;
- for the three months to 31 October, by the middle of November;
- for the three months to 31 January, by the middle of February; and
- for the three months to 30 April, by the middle of May.

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<sup>121</sup> DOTARS advised that section 11 of the R2R Act stated that 'the Minister may publish administrative guidelines' and the Funding Conditions required LGAs to comply with them. In comparison, under the Auslink Act, there is no mention of Notes on Administration or guidelines.



**3.83** Under the Auslink Roads to Recovery Program these arrangements were changed to align quarterly reporting and payments with standard quarters (September, December, March and June). In addition, the time in which Quarterly Reports are able to be submitted through the secure online system was extended to one month.

## **Enforceability**

**3.84** At the commencement of the R2R Program, LGAs were advised by DOTARS that a breach of the Conditions or Guidelines may lead to an LGA's liability to repay to the Commonwealth part of the LGA's grant. LGAs were also advised that giving false or misleading information is a serious offence. These points were made in the R2R Conditions but were reiterated in correspondence to LGAs.

**3.85** Section 13 of the Conditions stated that, in providing bank account details to the Commonwealth and accepting Program funds, the LGA was deemed to have accepted the Conditions and to be bound by them.<sup>122</sup> This statement was also included in the letter sent by the then Minister for Transport and Regional Services to LGAs on 21 December 2000. Therefore, by accepting payment through the R2R Program, recipients were intended to be bound by both the Conditions and the Administrative Guidelines.

**3.86** Funding Condition 12 stated that 'The Commonwealth may recover from an LGA funds provided under the Program not expended in accordance with the Act and these conditions'. In developing the legislation and conditions for the R2R Program, it was intended that the 'conditions' refer to all the conditions in the determination which formed the Funding Conditions. However, legal advice to DOTARS in May 2005 was that the liability to repay funding was limited to circumstances where the funds were not expended in accordance with the Act and the Conditions.

**3.87** In December 2005, in response to a question from ANAO as to whether the Auslink Funding Conditions and Notes on Administration could be enforced, DOTARS advised ANAO as follows:

The current Funding Conditions were drafted by an outposted General Counsel from the Australian Government Solicitor. They are legally enforceable.

The Notes on Administration are a users' guide to the Program to assist councils in applying the Funding Conditions and provide administrative guidance on how the Program works. They have a different legal basis from the Guidelines under the Previous Program, as explained in paragraph 3.74. They are intended to be clear and simple to read but are not intended to be legally enforceable. All the matters which need to be legally enforceable are in the Funding Conditions.

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<sup>122</sup> In addition, Section 6 of the *Conditions Applying to Payments* states that an LGA must comply with the Guidelines.

## 4. Financial Management

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*This chapter examines appropriation and budgeting arrangements, payment principles and the accuracy and reliability of financial data submitted by LGAs on which payments were based. It also includes ANAO's estimate of the cost to the Commonwealth of payments being made to LGAs more than three months in advance of need.*

### Appropriation and budgeting arrangements

**4.1** An appropriation is an authorisation by Parliament to spend from the Consolidated Revenue Fund (CRF) for a particular purpose.<sup>123</sup> Laws authorising money to be drawn from the CRF are either Annual or Special Appropriations, as follows:

- Annual Appropriations are generally made in six Acts each year. Of these six Acts, three are prepared at the time of each Federal Budget and a further three are prepared, as necessary, at Additional Estimates.
- Special Appropriations are provided in Acts of Parliament that deal with particular purposes of spending. Some Special Appropriations state an amount that is appropriated for a particular purpose, sometimes referred to as being 'limited by amount'. Others do not state an amount, but the appropriation is instead determined by legislative criteria or conditions. These types of Special Appropriations can be referred to as 'unlimited by amount', and are also referred to as 'standing appropriations', in that they endure over time.

**4.2** Special Appropriations are a feature of most Westminster-based appropriation frameworks and generally relate to payments that need to be made on an ongoing basis independently of the Government's annual budget priorities.<sup>124</sup> The Department of Finance and Administration (Finance) has advised agencies that Special Appropriations, rather than Annual Appropriations, would generally be appropriate in circumstances that include funding a legal entitlement to a benefit which is to be provided to those who satisfy criteria set out in law or to give effect to inter-governmental funding agreements or arrangements.

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<sup>123</sup> Department of Finance and Administration, Estimates Memorandum 2003/27, *Refresher on Appropriation Framework – Rules: The Commonwealth's Appropriation Framework and Rules*, 28 August 2003, p. 1.

<sup>124</sup> Report of the Victorian Auditor-General, *Parliamentary control and management of appropriations*, April 2003, p. 11.

## R2R Act Special Appropriation

**4.3** Section 6 of the R2R Act included a Special Appropriation for payments to funding recipients.<sup>125</sup> The Special Appropriation was capped at \$1.2 billion. The Special Appropriation was also constrained by time, with any amount not spent by 30 June 2005 no longer available to be spent.<sup>126</sup>

**4.4** The R2R Act Special Appropriation did not include any caps on the amount payable to LGAs in each financial year.<sup>127</sup> Further, as a Special Appropriation rather than an Annual Appropriation, the \$1.2 billion appropriation was not subject to the Parliament's annual budgetary control.<sup>128</sup> In this respect, advices provided by DOTARS to various LGAs, and the 2002–03 R2R Program Annual Report,<sup>129</sup> incorrectly stated that the total amount paid to all LGAs each year was limited to the amount appropriated by Parliament. In practice, though, the control would have been the annual budget estimate for the R2R Act Special Appropriation.

**4.5** Estimated expenditure from Special Appropriations is required to be reported in agencies' PBS. An annual allocation was set for each LGA based on the same proportions as the overall annual allocation for the Program. Payments in each financial year were to be limited to that LGA's annual allocation (or cap—see Table 4.1).

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<sup>125</sup> Section 6 reads as follows:

**6 Payments to funding recipients**

- (1) Subject to this Act, each amount as set out in the published list is payable to the funding recipient concerned.
- (2) The amount is payable in one or more instalments. The amounts and timing of instalments are to be determined by the Minister.
- (3) The Consolidated Revenue Fund is appropriated for payments under this section.
- (4) Payments under this section must be made before 1 July 2005.

<sup>126</sup> In this respect, DOTARS' 2004–05 financial statements incorrectly reported an undrawn, unspent appropriation balance of \$77,819 as of 30 June 2005. See Note 28D on page 304 of the DOTARS *Annual Report 2004–05*.

<sup>127</sup> In comparison, some other Special Appropriations have specified amounts in respect of each year for which the appropriation was available. See, for example, the *Appropriation (Supplementary Measures) Act (No.1) 1999* and the *Appropriation (Supplementary Measures) Act (No.2) 1999* discussed in ANAO Audit Report No.15 2004–05, *Financial Management of Special Appropriations*, pp. 71–74.

<sup>128</sup> Department of Finance and Administration, Estimates Memorandum 2003/27, op. cit., p. 2.

<sup>129</sup> *Roads to Recovery Programme Annual Report 2002–2003*, p. 3.

**Table 4.1****R2R Act Special Appropriation: Budget estimates and actual payments**

Year	Budgeted Amount (\$)	Expenditure (\$) <sup>A</sup>	Difference (\$)
2000–01	150,000,000	150,000,000	0
2001–02	300,000,000	300,000,000	0
2002–03	200,000,000	200,000,000	0
2003–04	300,000,000	300,000,000	0
2004–05	250,000,000	249,922,181	77,819 <sup>B</sup>
<b>Total</b>	<b>1,200,000,000</b>	<b>1,199,922,181</b>	<b>77,819</b>

Notes to table:

<sup>A</sup> Section 30 of the *Financial Management and Accountability Act 1997* (FMA Act) provides for the reinstatement of an appropriation where an amount is repaid to an agency. In 2000–01, \$696 was paid to an incorrect LGA and recovered. In 2001–02 \$64,583 was incorrectly paid to an LGA and recovered. In 2002–03, \$153,894 was paid incorrectly to LGAs and recovered. In 2004–05, \$47,174 was paid to the incorrect LGA and recovered.

The financial reporting requirements for Commonwealth agencies are contained in Finance Minister's Orders (FMOs) made under section 63 of the FMA Act. The FMOs provide minimum mandatory disclosure and reporting requirements for each Commonwealth agency. In each year the relevant FMOs have required agencies to disclose where an appropriation is re-credited. In each year of the R2R Program (except 2003–04 when there were no re-credits) DOTARS did not meet the requirement to separately disclose the use of section 30 of the FMA Act.

<sup>B</sup> This difference is made up of: two LGAs not being paid their full allocation leading to a shortfall of \$77,832 (see Chapter 3); another LGA receiving \$20 more than its actual allocation; and total gazetted allocations being \$7 less than the \$1.2 billion available under the Special Appropriation.

Source: ANAO analysis of DOTARS Portfolio Budget Statements and financial data.

**DOTARS discretion to pay LGAs more than their annual allocation**

**4.6** As illustrated by Table 4.1, each year DOTARS drew up to, but no more than, the estimated expenses for the Special Appropriation. As some LGAs had insufficient works to warrant being paid their full annual allocation in some years, to ensure the full amount of estimated expenses was realised in the first four financial years, DOTARS offered some LGAs that had more works than their annual allocation the opportunity to be paid some or all of the following year's allocation in advance.

**4.7** As mentioned, in the initial February 2001 Administrative Guidelines, LGAs were advised that there was flexibility to structure payments to meet cash flow needs subject to the cash flow constraints of the Program. LGAs wishing to vary their payment schedule were required to write to DOTARS submitting a proposed payment schedule and why this was required. This was subsequently amended in the February 2003 Guidelines, such that flexibility of the payment schedule would be dealt with on a case-by-case basis at the discretion of the Department.

**4.8** DOTARS did not develop, or advise LGAs, of any criteria it would use in exercising its discretion. In December 2005, DOTARS advised ANAO that the process undertaken from the May 2003 payment onward was as follows:

- calculate the payment for each LGA subject to annual administrative cap and total these amounts to ascertain the total amount which would be paid out on this basis;
- determine the total amount remaining available for expenditure in that year; and
- reallocate these funds to councils which had actual or projected expenditure in excess of the annual allocation until the full funding available was spent, starting with the smallest in accordance with instructions from the Minister's office that the needs of the smaller councils were to be addressed first.

### **Auslink Roads to Recovery**

**4.9** Whereas the initial R2R Program was funded through a Special Appropriation, the Auslink Roads to Recovery Program is funded through Annual Appropriations. As outlined in Table 1.3 in Chapter 1, \$300 million per annum between 2005-06 and 2008-09 has been budgeted in administered expenses within DOTARS' Outcome 1 ('A better transport system for Australia') for the formula component payments to LGAs. Annual allocations to individual LGAs are based on the Annual Appropriations.

**4.10** Similar to the R2R arrangements, the Auslink Roads to Recovery Notes on Administration state (at clause 6.2) that payments in each financial year to each LGA will be capped at its annual allocation, except:

- LGAs with a life of Program allocation of \$250,000 or less may receive their full life of Program allocation on an 'as required' basis, on submission of Quarterly Reports providing details of actual and projected expenditure. Like the R2R Program, this arrangement for accelerated funding to LGAs with a relatively small allocation was intended to enable those LGAs to undertake 'sensible projects within a reasonable timeframe';
- limited flexibility is available to allow large projects to be undertaken in one or two financial years or where substantial savings will arise from undertaking particular works in a short timeframe; and
- where LGAs underspend in the last quarter of any financial year, the underspend may be reallocated to other LGAs at DOTARS' discretion. Both the timing and amount of such reallocations are at the discretion of DOTARS. Similar to the R2R Program, LGAs have not been provided with any criteria DOTARS will apply in exercising this discretion.

## Recommendation No.6

**4.11** ANAO *recommends* that, to promote equity and transparency, DOTARS document and provide to Local Government Authorities the criteria that are to be used in exercising any Departmental discretion in reallocating any underspent Auslink Roads to Recovery annual allocations between Local Government Authorities.

### *DOTARS response*

**4.12** DOTARS agreed to the recommendation and advised that 'A *Roads to Recovery* circular on this matter will be issued to all Local Government Authorities by end March 2006.'

## Payment principles

**4.13** The February 2001 version of the Guidelines stated that payments would be made in 16 equal quarterly instalments. They further stated that the first payment would be made in February 2001 and the final payment in November 2004 with the balance of the financial year 2004-05 to be used to finalise any outstanding matters.

**4.14** As early as April 2001, DOTARS recognised that the payment arrangements outlined in the February 2001 version of the Guidelines did not adequately match payments to the cash flow needs of LGAs. Specifically, DOTARS stated that:

From an initial concept of equal quarterly payments ("one size fits all"), the Program has quickly moved to one which more closely meets the cash flow needs of councils. This is in line with the ANAO grants best practice that grants not be paid in advance of need of the recipient. The Government decision to accelerate funding to those councils that are able to use the funding adds further to the complexity.

Also the initial plan for discrete cut-offs to provide single aggregate quarterly payments have proved difficult in practice requiring multiple payments per quarter. All this requires a higher level than expected of manual intervention in the payment processes, it is unlikely to abate, given the probable criticism from councils if we enforce the cut-offs.

**4.15** DOTARS recognised that it was important to time payments to LGAs so that they could undertake R2R works without transferring funds from their normal road activities. At the same time, DOTARS recognised that payments should not be made too far in advance of need as this would incur a cost to the Commonwealth, as well as adversely impacting on accountability.

**4.16** Accordingly, after the initial payment to LGAs, the practice that was adopted involved paying LGAs in advance, based on Quarterly Reports that included data on expenditure to date and forecast expenditure for the next

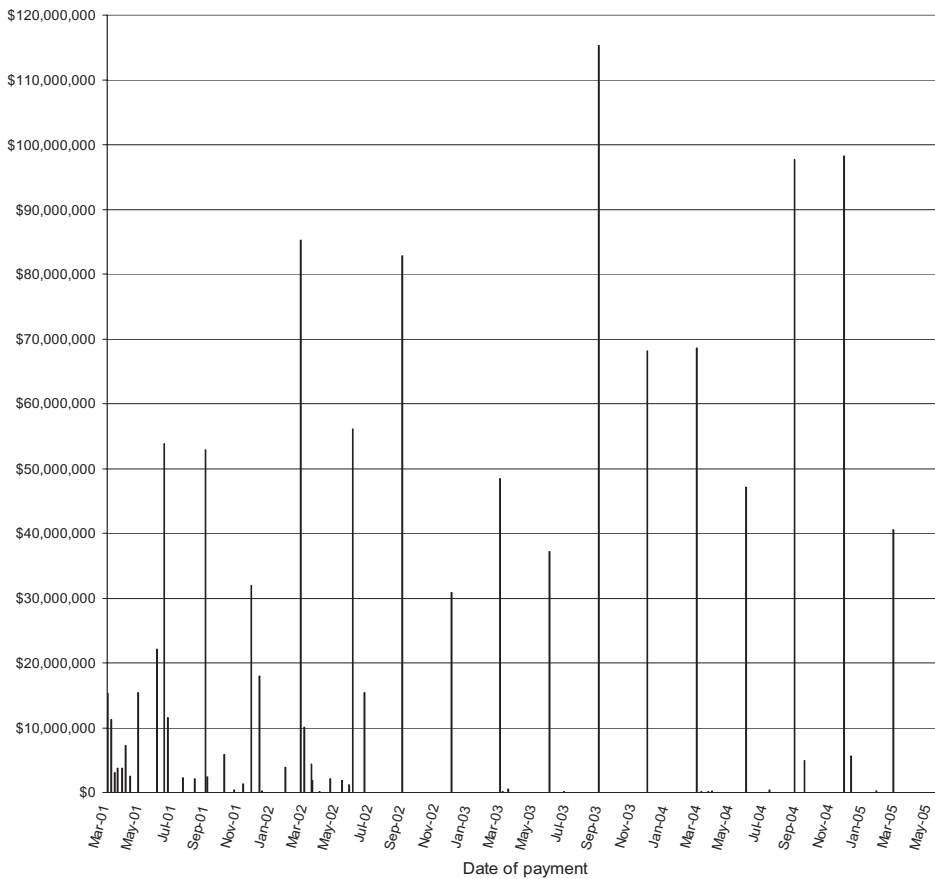
quarter. Consistent with this, when the Guidelines were updated in February 2003, the statement regarding payments to LGAs was amended to:

In general, the second and subsequent payments will be made three months in advance based on the information provided in Quarterly Reports lodged by councils but there will be some flexibility to structure payments otherwise to meet cash flow needs subject to the overall cash flow constraints of the Program. This will be dealt with on a case by case basis at the discretion of the Department.

**4.17** In this context, Figure 4.1 illustrates the number of payments made by DOTARS, and the total amounts paid on each date, over the life of the R2R Program.

**Figure 4.1**

**Date and amount of payments made over the life of the R2R Program**



Source: ANAO analysis of DOTARS records.

## Cash management

**4.18** ANAO's Administration of Grants Better Practice Guide states that cash management principles should be considered when paying grants in advance.<sup>130</sup> In this regard, Finance has issued a number of Finance Circulars over the years stating that early payment of public monies should only be considered where there is a financial benefit to the Commonwealth.<sup>131</sup> The most recent of these, Finance Circular 2004/14, stated as follows:

Efficient, effective and ethical management of Commonwealth resources includes making payments no earlier than necessary having regard to programme and service delivery objectives. As such, prepayments and early payments should only be made where there is a benefit to the Australian Government after taking all costs and risks into account.

If agencies pay suppliers or contractors earlier than required, the interest on the Australian Government's money held centrally with the Reserve Bank of Australia is reduced. Agencies should take this whole of government impact into consideration when assessing prepayments and early payments.

**4.19** It was intended that R2R Program funds would be provided to LGAs quarterly in advance (subject to annual allocation caps) based on the information submitted by LGAs in Quarterly Reports (cumulative expenditure and forecast expenditure). This meant that, by design, the Program included allowance for LGAs to hold funds for up to three months before being used. This was seen as necessary so that LGAs could undertake R2R works without transferring funds from their normal road activities.<sup>132</sup>

**4.20** Payment three months in advance did, nevertheless, provide a potentially significant financial advantage to LGAs at the expense of the Commonwealth. ANAO estimates that the cost to the Commonwealth of payments quarterly in advance was up to \$14.7 million, where funds were held for the full three months prior to being spent on road works. The data obtained by DOTARS from LGAs does not enable a precise calculation to be undertaken. On the assumption that funds were used by LGAs within one and a half months of payment by DOTARS, the estimate would reduce to \$7.4 million.

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<sup>130</sup> ANAO, *Administration of Grants Better Practice Guide*, May 2002, p. 31.

<sup>131</sup> See Finance Circular 1995/3 *Cash Management: Timing of Payments Contractors and Traders, Lease Versus Buy*, Finance Circular 1997/09, *Payment of Accounts – Auditor-General's Report No.16 1996–97* and Finance Circular 2004/14 *Discounts for prepayment and early payment*.

<sup>132</sup> DOTARS advised ANAO in February 2006 that 'it was important to ensure that councils were not disadvantaged and in fact, many councils would not have been able to fully participate had the programme run by payment in arrears'.



**4.21** In addition to the intended benefit of payments up to three months in advance of need, ANAO's examination of a sample of LGAs revealed many instances of LGAs being paid more than three months in advance of the expenditure of R2R funds. This resulted from:

- hardship payments being made in advance of need (see paragraphs 4.24 to 4.34, including Case Study No.4.1);
- accelerated funding in 2000-01 insufficiently matched to LGA cash flow needs (see paragraphs 4.35 to 4.47 including Case Study No.4.2);
- overstated expenditure reported by some LGAs in their Quarterly Reports (see paras 4.55 to 4.59 including Case Study No.4.3); and
- unreliable expenditure forecasts submitted by some LGAs in their Quarterly Reports (see paras 4.60 to 4.62 including Case Study No.4.4).

**4.22** ANAO calculated that the cost to the Commonwealth of payments being made more than three months in advance of need to the 93 LGAs in ANAO's sample was between \$1.4 million and \$3.3 million.<sup>133</sup>

**4.23** The 93 LGAs in ANAO's sample received \$203.9 million of the \$1.2 billion paid to LGAs in the initial R2R Program. Extrapolating the interest cost to the full \$1.2 billion results in an estimated cost to the Commonwealth of between \$8.4 million and \$19.4 million. Together with the up-to-three-month financing benefit intended to be provided to LGAs (see paragraph 4.19), this meant that the total cost to the Commonwealth of payments in advance of need was up to some \$34.1 million.

## 2002–03 rephasing and 'hardship' payments

**4.24** Originally, it was envisaged that the R2R Program would involve payments of \$150 million in 2001–02 and 2004–05, as these were half years within the Program timetable. In 2001–02, 2002–03 and 2003–04, \$300 million was to be made available. However, in May 2002, the then Minister for Transport and Regional Services advised LGAs that:

The Government will meet its election commitment to increase spending on roads over the period of the forward estimates. However, it has been necessary to rephase some of the funds allocated to infrastructure in order to meet important budgetary priorities of the next two years. The *Roads to Recovery* Program will be affected by this in 2002–03. The funds to be provided for the Program will be reduced from \$300 million to \$200 million in 2002–03, with the \$100 million difference reinstated in 2004–05. *Roads to Recovery* funding in 2003–04 will remain unchanged at \$300 million.

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<sup>133</sup> Details of the ANAO methodology are provided in Appendix 3 to this Report.

**4.25** In May 2002, DOTARS wrote to each LGA advising how the rephasing would impact on them as follows:

- LGAs that were to receive less than \$600,000 over the life of the R2R Program were exempted from the rephasing; and
- all other LGAs were advised that, as a result of the rephasing decision, there would be a proportional reduction in the 2002–03 allocation. That is, council’s annual cap would be two thirds of the 2001–02 figure. These funds were to be made available subject to the existing requirements of demonstrating (in Quarterly Reports) actual and forecast expenditure.

**4.26** As a result of an underspend in 2001–02 funds DOTARS identified \$14.6 million that could be made available in June 2002 to LGAs that would suffer hardship as a result of their 2002–03 allocation being reduced.

**4.27** Subsequently, all LGAs with a life of Program allocation between \$600,000 and \$900,000 were advised that their annual cap would be \$150,000 rather than two-thirds of their 2001–02 allocation which they were advised of in the May 2002 correspondence from DOTARS. Advanced payments on 2002–03 allocations were also paid in June 2002 to LGAs who had spent more on their R2R projects than was provided as their 2001–02 allocations. The Minister was advised that the criteria for selecting LGAs to receive the advanced payments was size. That is, LGAs to be paid in ascending order to the total life of Program allocation.

**4.28** Those LGAs who received an advance on their 2002–03 allocation in June 2002 were advised by DOTARS that:

This payment is an advance on your 2002/03 allocation, which I advised you by letter on 16 May 2002. I wish to emphasise that your allocation for 2002/03 has not changed from the figure in this advice ie your total 2002/03 allocation remains \$XX including this advance payment.

**4.29** Analysis of those LGAs in ANAO’s sample who received an advance payment showed that, in practice, this advice was not consistently applied and/or errors were made. For example:

- Jerramungup Shire Council in Western Australia received an advance payment of \$72,310 in June 2002, \$98,291 short of its 2002–03 allocation. Based on its Quarterly Reports, in February 2003 Council received a

payment of \$238,065 (\$139,774 more than its revised 2002–03 allocation).<sup>134</sup>

- Corrigin Shire Council in Western Australia received \$207,307 in June 2002, \$2 short of its 2002–03 allocation. Council submitted Quarterly Reports in February 2003 and May 2003 that warranted payment, however nil was paid. It was not until August 2003 that Council received a further payment.

**4.30** In June 2002, DOTARS provided LGAs with criteria for assessing hardship claims arising from the 2002–03 rephasing decision. These criteria had been approved by the then Minister for Transport and Regional Services.<sup>135</sup> LGAs wishing to submit hardship claims were invited to write to DOTARS addressing the criteria.

**4.31** Hardship claims were submitted by 41 LGAs between June and October 2002. They were assessed in three tranches. DOTARS recommended approval of 14 of the hardship claims received. Two LGAs did not pursue their claim for hardship funding as they were unable to provide further information addressing the criteria requested by DOTARS.

**4.32** The then Minister approved the hardship claims of 36 LGAs. Each of the successful LGAs had the required amount of funds reinstated up to the original level of its 2002–03 allocation.

**4.33** Included in ANAO's sample of 93 LGAs were two that lodged a successful hardship claim. These were Tumut Shire Council in New South Wales (whose 2002–03 allocation was reinstated by \$107,420 to \$322,260) and Strathbogie Shire Council in Victoria (whose 2002–03 allocation was reinstated by \$256,751 to \$770,252). As outlined in the following case study, Strathbogie Shire Council's hardship claim was based on the rehabilitation of bridges throughout the LGA area.

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<sup>134</sup> In December 2005, DOTARS advised ANAO that 'the amount of the payment to Jerramungup Shire Council in February 2003 was an error. The annual payment ceiling was \$98,291 and the payment made was \$238,065. This had no bearing on the council payment amount received over the life of the Program (that is, no overpayment), but some funds were inadvertently provided early.'

<sup>135</sup> The criteria were, in order of importance:

- that a council would suffer a financial loss from having to break a commitment involving a written or verbal contract;
- partly completed projects (for example, bridges) which provide the community with limited or no benefit from the investment to date;
- employment. If the rephasing will result in the loss of employment bearing in mind that the R2R Program is supplementary with a life limited by legislation from the time of its announcement;
- the interruption of works underway or committed as at 15 May 2002 where this would have serious safety or economic implications; and
- preference for smaller councils.

## Case Study No.4.1: Strathbogje Shire Council, Victoria

Strathbogje Shire Council is a rural shire in North East Victoria with an area of 3,300 square kilometres and a population of approximately 9,500. It has approximately 740 kilometres of sealed roads, 1,440 kilometres of unsealed roads, 150 bridges and 380 other bridge structures such as culverts. Its R2R allocation was \$3,081,008.

Between May 2002 and July 2002, Strathbogje Shire Council made three submissions to DOTARS seeking funding under the hardship criteria for R2R funding for urgently needed works on 25 bridges to be undertaken during 2002–03. As a result of these submissions, in August 2002, a total of \$770,252 was paid to Council to enable these works to proceed.

In November 2002, Council advised DOTARS of its intention to continue with the proposed \$2.16 million 2002–03 bridges program, funding the immediate cash flow requirements from its own resources and that, subsequently, Council intended to apply in July 2003 to reimburse its cash flow used from its 2003–04 R2R funds. In August 2003, a further payment of \$1,347,941 was made to Council. This was the final life of Program payment made to Council, and was based on the reported start and completion dates for the proposed works, as documented in the August 2003 Quarterly Report submitted to DOTARS.

Council had advised DOTARS that it required \$2.1 million for urgently needed repairs and/or replacement of each of the 25 bridges. However:

- Work on two bridge projects had not even been commenced at the time of ANAO's August 2005 site inspections (Project No.58 and Project No.64). The proposed start date for both projects was 1 July 2002, with completion to occur by 30 March 2004.
- Work on a further two projects only commenced in April and July 2005 respectively (Project No.46 and Project No.53). The proposed start date for both projects was 1 July 2002, with completion to occur by 30 June 2004.
- A further 10 bridge projects had been undertaken, but not in 2002–03.

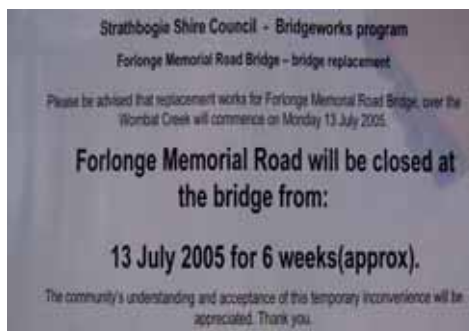
In February 2006, Council commented to ANAO as follows:

Council chose to re-tender Project No's 46 and 53 because the submitted rates were extremely high for this work, and it was deemed to be inappropriate to waste the communities money to satisfy a program timeline. When both bridge projects were re-tendered, the submissions received were in line with previously obtained bridge construction unit rates. The works were awarded, and the projects commenced prior to the 30 June 2005 timeline.

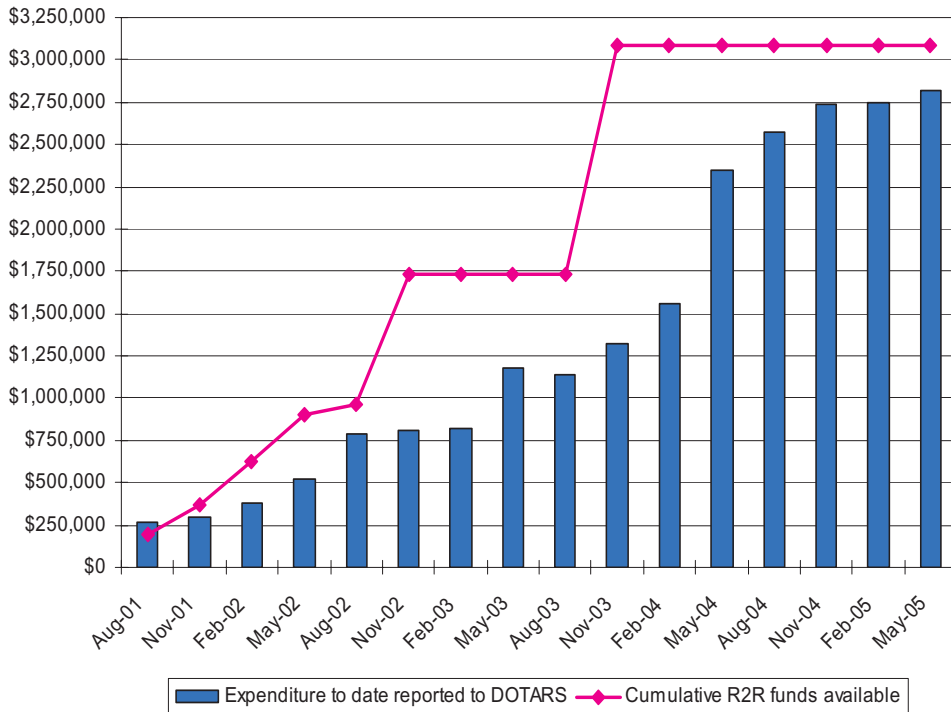
During the development of the solution for Project No.53: Forlonge Memorial Road bridge (see following photographs) a range of solutions were considered that would provide alternative solutions at lower cost. Negotiations with the waterway authority resulted in some delays. The discussions were truncated, and the current bridge arrangement was adopted and implemented.

During the course of the audit, Council advised ANAO that contractor availability is a significant issue. In regards to Project No.54, Galls Gap Road bridge replacement, Council further commented as follows:

The contract for the works was awarded in early 2004, and the works commenced in September 2004, and were completed in November 2004. The contractor was unable to program the works earlier than September, due to their workload. The successful contractor's submission offered significant better value to Council than the other tenderers, and therefore Council was prepared to wait for the works to occur.



ANAO's analysis of Quarterly Reports indicated that both the August 2002 hardship payment and the August 2003 final payment to Strathbogie Shire Council were made well in advance of Council's needs. In addition, analysis of Council's R2R Annual Reports and Council's audited financial statements, indicates that a considerable proportion of the total cash held by Council as at the end of the 2002–03 and 2003–04 financial years was R2R funds advanced by DOTARS. In these circumstances, Council received a financial benefit, at a cost to the Australian Government, as demonstrated by the following chart.



In September 2005, Council advised ANAO as follows:

The Council experienced a number of delays in getting a number of projects commenced as quickly as we would have preferred. Some of this is due to Council not having a dedicated design team, and relies on external consultants. This did lead to some delays in project delivery.

Obviously, we were optimistic in our assessment of the availability of resources to deliver on the bridgeworks program. We now appreciate that we have to be less optimistic, and more pragmatic, in our assessment of the timing and programming of numerous small projects. Our works program for Roads to Recovery Two will focus on fewer, but larger projects. We will also improve our project management skills. Further, it is important to note that the Council was unaware of the option of returning the temporary excess cashflow to DOTARS, nor did DOTARS at anytime request the return of the temporary excess cashflow.

In December 2005, DOTARS commented to ANAO that 'the problem was, as conceded by the Council, that it had over-estimated its capacity to spend the funds. It should be noted that the Council had fully spent all its funds by 30 June 2005 and had also spent nearly \$250,000 of its own money on the projects indicated.'

Source: ANAO site visit and analysis of DOTARS and council data and related correspondence.

**4.34** While DOTARS advised the Parliamentary Secretary in August 2002 that ‘during this financial year, payments to any given council will be capped at the rephased allocation’, this did not occur. ANAO analysis of the sample, excluding those two LGAs who had hardship claims approved, showed that 12 of the 93 LGAs were paid in 2002–03 in excess of their revised annual allocation. On this issue, DOTARS advised ANAO in December 2005 as follows:

It was the expectation in August 2002 that payments would be capped at the reduced allocations. It was believed that the reduction in available funding would mean virtually all councils would spend their full reduced allocations and that minimal funds would be available for redistribution. [But] there was money available for redistribution.

## Accelerated funding

**4.35** In March 2001, a reminder was sent to LGAs advising that the R2R Program had commenced and that funding was available for those LGAs who had submitted the required information. This reminder also advised LGAs that the R2R Guidelines allowed accelerated payments of an LGA’s allocation were the LGA had higher upfront cash flow needs. If an LGA had works with high cash flows in the short term and wished to apply for advanced funding in the 2000–01 financial year, the LGA was advised to submit its funding requirements to DOTARS as soon as possible.

**4.36** In April 2001 the then Minister for Transport and Regional Services was advised by DOTARS that the 2000–01 appropriation for the R2R Program was \$150 million, and that total 2000–01 payments were likely to fall some \$50 million short of the funding available for the financial year. Further, it was considered that this allowed considerable scope for accelerated payments to LGAs seeking funding in 2000–01.

**4.37** DOTARS further advised the Minister that 30 LGAs had requested accelerated funding, and 16 smaller LGAs had sought their full entitlement. DOTARS considered that these 46 LGAs had submitted suitable works programs to warrant payment of \$13.2 million to meet the requests. The Minister approved the first tranche of accelerated payments on 17 April 2001. Payments were made on 26 April 2001.

**4.38** The Minister approved a second tranche of accelerated payments to 98 LGAs<sup>136</sup>, amounting to \$46.5 million on 1 June 2001. This amount included the second quarterly payment to those LGAs involved.

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<sup>136</sup> In seeking approval for this second tranche of accelerated payments, DOTARS advised the Minister it included LGAs that had either formally requested accelerated funding, or demonstrated through their Quarterly Reports a requirement for funds in excess of their 2000–01 entitlement.

**4.39** On 14 June 2001, the Minister approved a third tranche of accelerated payments. This final tranche was to 33 LGAs and amounted to \$11 million.

**4.40** In total, 177 LGAs received accelerated funding totalling \$70.8 million.<sup>137</sup> ANAO's sample included 24 LGAs that received accelerated funding amounting to \$26,006,304.<sup>138</sup> In this context, LGAs were able to receive accelerated payments in two circumstances.

### **Accelerated funding to smaller recipients**

**4.41** The first type of accelerated funding involved LGAs with a small total allocation. Specifically, the Guidelines provided that LGAs with an entitlement to receive \$160,000 or less in total grants over the life of the Program could, at the discretion of the Minister, receive their total allocation in one or two payments. In such cases, LGAs needed to include sufficient works to support full payment. In total, 73 LGAs qualified for this treatment, four of which were in ANAO's sample (all were in the Northern Territory).

**4.42** Three of the four LGAs in ANAO's sample received their full allocation at the beginning of the Program and were paid their full allocation in one instalment. The other LGA, Cox Peninsula Community Government Council, received an accelerated payment in June 2001, but did not have sufficient works in its works schedule to justify payment of its full allocation in one or two payments. It received its funds between May 2001 and November 2003.

**4.43** Of the three LGAs who were paid in one instalment in 2000–01, ANAO analysis of documentation submitted to DOTARS showed that:

- Binjari Community Government Council reported in Quarterly Reports that it had undertaken all works as planned by the end of July 2001.
- Jilkminggan Community Government Council did not submit any Quarterly Reports after it was paid out in May 2001. DOTARS sought the 2000–01 R2R Annual Report from Council in January 2002, and followed up in May 2002 as the Annual Report had not been received. The 2000–01 R2R Annual Report was submitted to DOTARS in July 2002. It showed that none of the \$42,065 had been spent. The 2001–02 Annual Report submitted to DOTARS in January 2003 showed all funds had been spent by June 2002.
- Mataranka Community Government Council was paid its full R2R allocation of \$89,873 in May 2001. The 2000–01 Annual Report submitted in April 2002 reported nil expenditure of these funds to

<sup>137</sup> DOTARS, *Roads to Recovery Programme Annual Report 2000–2001*, p. 2.

<sup>138</sup> Of this amount, the majority was paid to one LGA (Brisbane City Council), which received an accelerated payment of \$16,270,354.

30 June 2001. The May 2002 Quarterly Report was submitted showing that \$76,364 had been spent by 30 April 2002, leaving \$13,509 (15 per cent) unspent. Council reported in its 2001–02 R2R Annual Report that \$84,476 had been spent by 30 June 2002. A further \$8,170 was spent in 2002–03. The remaining \$1,230 was spent in 2004–05 (no funds having been spent in 2003–04).

**4.44** In December 2005, DOTARS advised ANAO that:

The problem of slow spending of up front payments to small councils has been addressed in the new Roads to Recovery Program. While no annual cap is applied to these councils, funding is only provided to them on the basis of Quarterly Reports and actual projected expenditure for the next quarter, cross checked with actual expenditure from the previous quarter.

### **Accelerated funding to other recipients in 2000–01**

**4.45** The second circumstance in which accelerated funding was made available to an LGA was when it was included in one of the three tranche submissions to the Minister as discussed above. It was DOTARS' practice to include those LGAs whose reported cash flow needs (as included in the Quarterly Reports) were substantially in excess of two quarterly instalments.

**4.46** In some instances, works the subject of accelerated funding were undertaken as proposed. An example of this is provided in Case Study 4.2. However, this case study also indicates that the manner in which accelerated funding was made available did not sufficiently match R2R payments to LGA cash flow needs such that some LGAs were paid well in advance of need.

**4.47** In comparison to the Brisbane City Council case study, there were a number of instances where ANAO's analysis of accelerated payments revealed that works were not undertaken as proposed by LGAs when they requested accelerated funding. As a result, funds remained unused with the LGAs for a considerable period of time. This provided the relevant LGAs with a financial benefit, at the expense of the Australian Government. Examples of this included the following.

- Katherine Town Council, in the Northern Territory, received accelerated funding of \$482,223 in April 2001 to complete four urgent projects prior to the wet season. ANAO understands that two of these projects were not completed with R2R funds. The other two projects were completed some time after December 2001. One was first reported as complete in May 2002, the other in February 2003. Council advised ANAO on 19 October 2005 that:

The project was being completed in conjunction with the Northern Territory Government who delayed the project and then after completion did not invoice council for some time. Council requested the acceleration of funds in



good faith but unfortunately due to circumstances beyond our control did not expend the funds as anticipated.

- The Shire of Ravensthorpe, in Western Australia, received an accelerated payment on 21 June 2001, for Council's entire R2R allocation (\$1,167,790). Council's May 2001 request for accelerated funding included a works schedule showing all work was to start on 1 July 2001 and be finished by 31 December 2001. ANAO's analysis of Council data showed that, as at 31 December 2001, some \$1,099,180 (94 per cent) of Council's R2R allocation remained unspent. The Shire of Ravensthorpe did not spend significant amounts of the advanced funds until 28 February 2002 and did not spend its allocation in its entirety until 31 March 2002. Council advised the ANAO on 1 July 2005 that:

With regard to the delay in undertaking the works it would appear that the complexities and size of the project impacted on the time taken to determine and compile the specifications for the project. This delay impacted on the Tender Process and ultimately the commencement time of the works.

## Case Study No.4.2: Brisbane City Council, Queensland

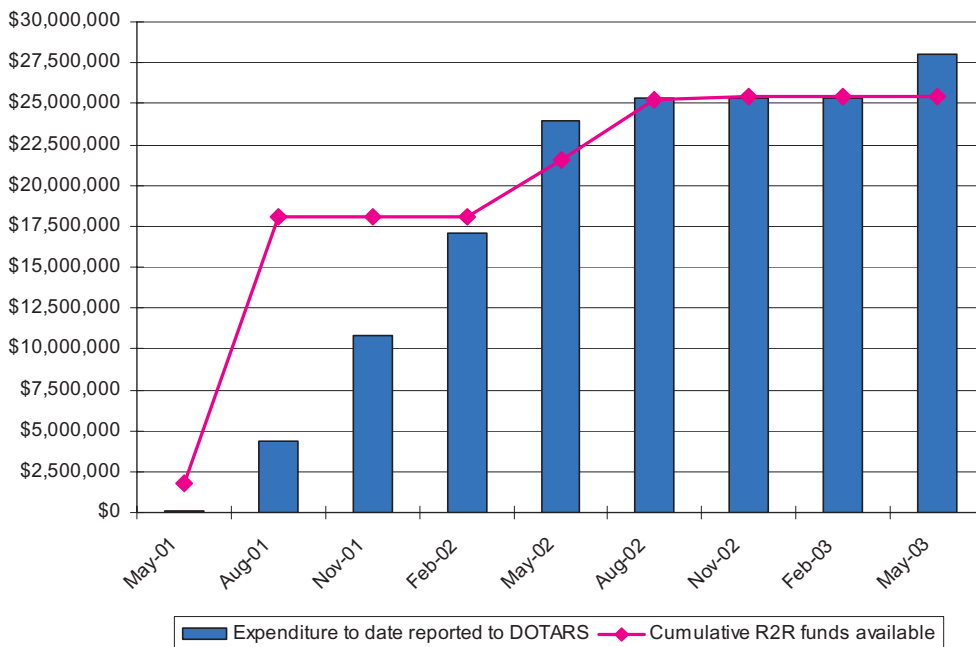
Brisbane City Council in Queensland received the largest R2R allocation with \$28,634,338. This was because Brisbane City Council is a very large council, covering the Federal electorates of Bowman, Brisbane, Griffith, Lilley, Oxley and Ryan.

In April 2001 Council requested accelerated funding of \$15,260,000 for projects which were expected to be completed by 31 December 2001. In June 2001, Council was paid \$16,270,354—\$1,010,354 more than the amount Council requested, bringing the balance of payments to Council as at 30 June to \$18,060,000. In terms of the accelerated funding, Council advised ANAO in August 2005 as follows:

The initial round [of the R2R Program] was announced and enacted quite quickly with some confusion as to reporting requirements and processes. The Department of Transport and Regional Services and Brisbane City Council officers worked collaboratively to implement the Program. In some cases, assistance was sought in interpreting the Guidelines particularly in relation to spending that was permitted and calculation of the average base level of funding to be maintained by Brisbane City Council. Added to this, Brisbane City Council increased its early Program spend by bringing forward \$22 million worth of projects into the 2001–02 year. This greatly assisted the Roads to Recovery Program to achieve a more consistent spending pattern, as the take up rate of other Council's was much slower.

Brisbane City Council's accelerated funding request was based on completing eight works projects at various dates between 30 June 2001 and 31 December 2001. ANAO analysis of Quarterly Reports submitted by Council showed that all projects were, as proposed, completed by 31 December 2001. Consistent with this, all funds except the extra \$1 million paid by DOTARS had been reported as spent by 31 January 2002 (in the February 2002 Quarterly Report).

DOTARS paid Council the full accelerated funding amount in June 2001, although works were to be undertaken up to 31 December 2001. This meant that a significant amount of funds were paid well in advance of need. This is illustrated in the following chart. In this respect, it needs to be recognised that DOTARS wanted to pay the full amount in June 2001 so as to exhaust the 2000–01 estimated expenses for the Program. Accordingly, DOTARS did not seek from Council an expenditure profile up to 31 December 2001 so that payments could have better matched Council's cash flow needs. This contrasted with other instances later in the Program (involving significantly smaller amounts) where DOTARS declined to pay LGAs funds for work that would not be undertaken in the following three months.



Source: ANAO analysis of DOTARS and council data and related correspondence.

## Analysis of Quarterly Reports

**4.48** Quarterly Reports submitted by LGA's provided details on actual and forecast expenditure for each project listed in the works schedule. The Guidelines included a proforma of the Quarterly Report. This proforma was also on the secure website for LGAs to complete.<sup>139</sup>

**4.49** Based on Quarterly Reports submitted by LGAs, DOTARS produced a report with details of projects nominated by LGAs for R2R funding. This report included works details from the works schedule together with cumulative expenditure and forecast expenditure submitted by the LGA in its most recent Quarterly Report.

**4.50** Subject to its overall allocation and the annual payment cap, the following calculation determined the amount that was to be paid to each LGA as follows:<sup>140</sup>

	Reported expenditure to date for all projects
Plus:	Reported forecast expenditure for all projects
Less:	Total payments previously made
Equals:	Payment to be made

**4.51** In this context, it was important that LGA Quarterly Reports included:

- accurate figures for total expenditure to date (that is, the sum of cumulative expenditure on each project); and
- reliable expenditure forecasts.

**4.52** ANAO found that this was often not the case for a number of the LGAs in ANAO's sample, as outlined below.

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<sup>139</sup> While the term 'Quarterly Report' suggests that reports were required to be submitted quarterly by LGAs, many times they were not. Instead, LGAs often only submitted Quarterly Reports when they sought further funds.

<sup>140</sup> After calculating the amount payable, DOTARS' Payment Calculation Form also required Departmental officers to satisfy themselves that all projects were road projects and that a satisfactory R2R Annual Report had been submitted.

## Analysis of cumulative expenditure

**4.53** LGAs were required to include in their Quarterly Reports the cumulative expenditure on each project.<sup>141</sup> As outlined above, DOTARS used the aggregate cumulative expenditure figure for all projects as part of its calculation of the amount, if any, to be paid to each LGA. DOTARS did not, however, have systems and procedures in place to analyse the cumulative expenditure reported against each project in the current Quarterly Report against:

- previous Quarterly Reports;<sup>142</sup>
- R2R Annual Reports; and/or
- any other information submitted by LGAs.

**4.54** In this context, as part of this performance audit, ANAO analysed the Quarterly Reports submitted by those LGAs selected in the sample.

### *Reductions in cumulative expenditure*

**4.55** ANAO analysis of Quarterly Reports identified that 65 per cent of the LGAs included in the sample reported reductions in cumulative expenditure for one or more projects. As a result of these reductions in project expenditure, 35 per cent of the LGAs in the sample had their total cumulative expenditure for the Program fall in one or more quarters.

**4.56** As cumulative expenditure is a cash figure, reductions in these figures generally should not, in the absence of reporting errors, occur. Accordingly, ANAO sought advice from each LGA on the identified anomalies, with the following results.

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<sup>141</sup> In this respect, the 2001 version of the Guidelines contained an error in the Quarterly Report proforma with the expenditure column headed 'Expenditure for Quarter Reported On' with the description for this column in the Guidelines stating that LGAs were required to report the amount spent in the quarter reported on excluding the amount of GST paid. However, the Quarterly Report proforma on the system correctly referred to expenditure to the end of the quarter. The February 2003 version of the Guidelines corrected this error by changing the column heading to 'Expenditure to end of Quarter' with the column description amended to read 'Expenditure from inception of Programme to end quarter reported on (excluding GST paid)'.

<sup>142</sup> For example, in the case of Griffith City Council in New South Wales, as part of the quarterly reporting process individual projects in Council's works schedule were duplicated. This resulted in the overall totals for the estimated cost; expenditure to date; and forecast expenditure, being overstated. These figures were automatically (incorrectly) transposed into the payment calculation formula. The duplication issue first occurred in the November 2001 Quarterly Report but was not identified by DOTARS until the August 2003 Quarterly Report. The duplication of works occurred again in the November 2003 Quarterly Report, was not identified in DOTARS' payment process and Council was paid the balance of its life of program allocation. Based on expenditure to date and forecast expenditure, it was not until the May 2005 Quarterly Report that there were sufficient projects listed in the works schedule to justify the payment of the full allocation.

- Some LGAs reported forecast expenditure as actual expenditure. For example, Newcastle City Council in New South Wales advised ANAO in August 2005 that cumulative expenditure on one project actually comprised estimated expenditure and that the final cost was less than estimated.<sup>143</sup>
- A number of LGAs included as 'expenditure to date' costs that were committed but had yet to be paid. Where actual costs were less than the amount reported as committed, expenditure to date fell. The relevant LGAs were the Shire of Warwick (in Queensland), Tea Tree Gully (in South Australia), the City of Ballarat (in Victoria) and the City of Rockingham (in Western Australia).
- Costs charged to the R2R Program often included charge rates associated with LGAs using their own plant to undertake the work. These rates can be adjusted and, for example, in the case of Coolamon Shire Council in New South Wales, a reduction in the rates reduced the expenditure previously charged to R2R projects.
- Some Quarterly Reports included as R2R 'expenditure to date' costs that were met from other funding sources. For example, Redland Shire Council (in Queensland) advised ANAO in August 2005 that its May 2003 and May 2004 Quarterly Report expenditure figures were overstated as the figures included the full cost of the works, not just those funded by the R2R Program.
- Some LGAs advised ANAO that funding from other sources for the road works in question were received subsequent to R2R funds being drawn down. For example, Port Stephens Council (in New South Wales) advised ANAO in August 2005 that cumulative expenditure on five of its projects was reduced between May 2002 and August 2002 as a result of applying additional contributions from developers to the cost of these works.

### *Cumulative expenditure compared to R2R Annual Reports*

**4.57** ANAO analyses also involved comparing the data included in the Quarterly Reports to the financial data in the R2R Annual Reports.<sup>144</sup> Specifically, ANAO compared expenditure reported by LGAs in their R2R

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<sup>143</sup> The May 2004 Quarterly Report stated that expenditure to date on Project 10 to replace the sub-base and reseal Watt Street in Newcastle was \$110,000. However, the August 2004 Quarterly Report stated that expenditure to date on Project 10 was \$64,781. This was \$45,219 less than the previous report. The May 2004 R2R payment to Newcastle City Council had included the expenditure to date figure of \$110,000 in the payment calculation.

<sup>144</sup> The Annual Report was the authoritative document submitted by LGAs to account for the use of R2R funds and certify that the conditions of the R2R Program had been complied with.

Annual Report at 30 June each year to cumulative expenditure reported in each R2R Quarterly Report. In this respect, the cumulative amounts reported in R2R Annual Reports as having been expended to 30 June should have been:

- equal to, or greater than, the amounts reported in the May Quarterly Report for the corresponding year; but
- less than, or equal to, the amounts reported in the August Quarterly Report.

**4.58** This analysis revealed anomalies for a number of LGAs, as shown in Table 4.2.

**Table 4.2**

**Cumulative Expenditure analysis of LGAs in sample (percentage of instances)**

Financial Year	May Quarterly Report Expenditure to Date higher than Annual Report Cumulative Expenditure	Cumulative expenditure in the Annual Reports was, as expected, between the May and August Quarterly Report Expenditure to Date	August Quarterly Report Expenditure to Date lower than Annual Report Cumulative Expenditure
2000–01	1.5%	93.8%	4.6%
2001–02	11.0%	70.3%	18.7%
2002–03	18.2%	52.3%	29.5%
2003–04	12.7%	63.3%	24.1%
<b>Total %</b>	<b>11.5%</b>	<b>68.4%</b>	<b>20.1%</b>

Source: ANAO analysis of LGA documentation (Quarterly and Annual Reports) submitted to DOTARS.

**4.59** Where anomalies were identified in the comparison of an LGA’s Quarterly Reports and Annual Reports, ANAO sought advice from the LGA on the reason why the numbers differed. The following case study provides an example.

### Case Study No.4.3: Shire of Beverley, Western Australia

The Shire of Beverley is a rural council covering 2,310 square kilometres of the Western Australian central wheatbelt. The main town is Beverley, which is located on the banks of the Avon River. The Shire has 239 kilometres of sealed roads and 517 kilometres of unsealed roads. It received an R2R allocation of \$1,226,059. The following photograph shows shoulder reconstruction work undertaken on Kokeby East Road as part of R2R Project 19 (Various Roads: Repairs to road surfaces—\$177,326).



ANAO's analysis of the Shire of Beverley's Quarterly Reports and R2R Annual Reports identified a number of issues concerning the accuracy and reliability of the financial data submitted to DOTARS throughout the R2R Program. In relation to the R2R Annual Reports, ANAO found that:

- as of 30 June 2003, cumulative expenditure reported in R2R Annual Reports was \$626,671. However, the May 2003 Quarterly Report stated that cumulative expenditure to 30 April 2003 (that is, two months earlier) was a higher amount of \$651,897. This suggested that cumulative expenditure fell from April to June; and
- as of 30 June 2004, cumulative expenditure reported in R2R Annual Reports was \$982,689. However, the August 2004 Quarterly Report stated that cumulative expenditure to 31 July 2004 (that is, one month later) was a lower amount of \$821,640. This suggested that cumulative expenditure fell from June to July.

In July 2005, the Shire of Beverley advised ANAO that the expenditure figures included in its Quarterly Reports were incorrect. Errors existed in both forecast expenditure (expenditure was forecast for completed projects) and in cumulative expenditure (reflecting the non-inclusion of some costs that had been incurred as well as reporting of non-existent expenditure against other projects).

Because of these errors, the Shire of Beverley provided ANAO with reworked Quarterly Reports for the periods ending on 30 April 2001, 30 April 2002, 30 April 2003 and 31 July 2004. The corrections made to cumulative expenditure included in these Quarterly Reports revealed that expenditure had not fallen over time as reported by Council to DOTARS.

However, the corrected Quarterly Reports confirmed that the Shire of Beverley had been paid too much in respect of the works actually undertaken between May and August 2004. The information obtained by DOTARS also did not enable ANAO to assess whether the funds paid as part of the final R2R payment (in November 2004) had been used. The Shire of Beverley advised ANAO that all funds had been spent by the end of June 2005.

Source: ANAO site visit and analysis of DOTARS and Council data and related correspondence.

## Expenditure forecasts

**4.60** In addition to reported expenditure to date, payments under the R2R Program were made to LGAs by DOTARS based on the forecast expenditure reported by the LGA in its Quarterly Reports.

**4.61** In the above context, it was important that the forecasts made by LGAs of the expenditure they expected to incur in the following period were accurate. However, ANAO analysis identified 88 per cent of LGAs in the sample had forecast expenditure reported on particular projects in one or more Quarterly Reports but where little, or no, further expenditure on the project was reported in the following Quarterly Report.<sup>145</sup> This figure was reduced (but only slightly) to 73 per cent when the following two quarters (six months) were analysed. This raised questions about the veracity of the forecasts. ANAO raised the anomalies with the LGAs concerned.

**4.62** Some LGAs advised ANAO that their forecasts had been erroneous or overly optimistic. In addition, or as well, some LGAs advised ANAO that their forecasts were subject to variables that were outside their control. These variables included: weather conditions (such as early onset of the wet season, floods and drought); changes in decisions by other parties (such as State Governments or developers) that were going to contribute to the cost of the road works; machinery breakdowns; and problems with contractors. The following case study provides an example from one of the LGAs in ANAO's sample.

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<sup>145</sup> This figure comprised LGAs where five per cent or less of a project's forecast expenditure was spent on a nominated project in the subsequent quarter.



### Case Study No.4.4: Darwin City Council, Northern Territory

Darwin City Council covers over 14,000 hectares with a population of some 73,000. It received an R2R allocation of \$2,792,742.

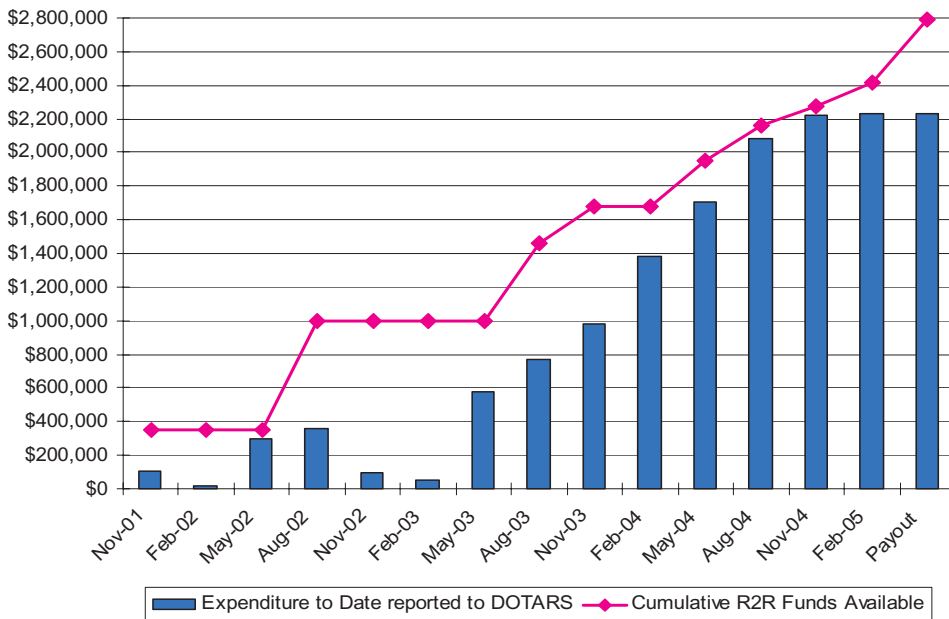
ANAO's analysis revealed that, for 10 of the 13 R2R projects undertaken by Council, reported expenditure to date fell from one Quarterly Report to the next. As a result, total expenditure to date across all projects also fell in a number of quarters. Council advised ANAO in February 2006 that:

Upon checking, staff have advised that what they initially did was to report expenditure for the particular period, not expenditure to date. This was a misunderstanding on their part and as you can see, the reporting was correctly undertaken after the May 2003 reporting period. Notwithstanding the above and, in order to reflect the true situation, the actual expenditure to date should be cumulatively summed commencing at the November 2001 reporting period.

ANAO also identified instances where total forecast expenditure far exceeded actual expenditure in the relevant quarter. On this issue, Council advised ANAO that:

Variations will always occur in individual years due to the extreme climate seasonal variations relating to the typical monsoonal wet season/dry season conditions that we experience. The extremes in seasonality experienced in Darwin are quite unlike that experienced elsewhere in Australia. In addition, extreme seasonality and remoteness often leads to other issues such as materials supply difficulties and difficulty in securing contractors.

The cumulative effect of payments having been made to Council where reported expenditure has been reduced and forecast expenditure has not been undertaken is illustrated in the following diagram.



Council also advised:

In regard to the final expenditure, I believe that it should be noted that whilst this was not achieved in the final reporting period shown on the graph (for the reasons previously provided) it was none the less achieved. Specifically, all but \$41,000 was expended as at 30 June 2005 but was not invoiced until a month later i.e. July 2005. The remaining \$41,000 was expended in August and September 2005.

Source: ANAO analysis of DOTARS and council data and related correspondence.

## Program wind-up

**4.63** Each of the 93 LGAs in ANAO's sample was paid its full R2R allocation. The total amount paid to these 93 LGAs was \$203.9 million. Of this amount:

- \$13,057,715 had not been accounted for (as of 30 June 2005) because 31 LGAs had not submitted an R2R Annual Report for 2004–05 by 15 November 2005;
- 45 LGAs reported to DOTARS that their full allocation had been spent by 30 June 2005; and
- 17 LGAs reported that \$2,377,351 had not been spent by 30 June 2005.<sup>146</sup>

**4.64** The following case study is of an LGA that had spent its full allocation by 30 June 2005, although funds had not been spent within three months of receipt (due to errors in Quarterly Report resulting in funds being paid too early).

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<sup>146</sup> Of the 17 LGAs with outstanding R2R funds, ANAO noted the following:

- The balance of R2R funds carried forward to 2005–06 in York Shire Council in Western Australia's and Jericho Shire Council in Queensland's Annual Reports (from previous years) was overstated.
- Murweh Shire Council in Queensland's 2004–05 R2R Annual Report showed that all Council's R2R funds had been acquitted but, based on reported expenditure over the life of the Program, \$81,947 had not been spent as at 30 June 2005. Similarly, Greater Argyle Shire Council in New South Wales had \$6,120 that was not spent by 30 June 2005.
- Maitland City Council in New South Wales and the City of Kalgoorlie-Boulder in Western Australia had submitted 2005–06 Annual Reports to acquit \$312,935 that had not been spent by 30 June 2005.

## Case Study No.4.5: City of South Perth, Western Australia

The City of South Perth in Western Australia covers nearly 20 square kilometres and has 197 kilometres of roads. It received an R2R allocation of \$755,327 which it used on 15 projects. The following photograph is of Project No.2, rehabilitation of pavement on a section of Goss Avenue.



On 4 June 2004, DOTARS wrote to Council advising it that it had only claimed \$360,971 (or 48 per cent) of its R2R allocation. DOTARS requested that Council review its work schedules (adding new projects as required) and commence work on these projects as soon as possible. Council was advised that it could claim the balance of its allocation in the August 2004 Quarterly Report, providing the Report supported payment, bearing in mind that all funds must be spent by 30 June 2005.

On 26 August 2004, Council received a payment of \$361,655. This payment was based on the August 2004 Quarterly Report submitted by Council.

ANAO analysis of the August 2004 Quarterly Report revealed that the August 2004 payment was made based on incorrect information. Specifically, Project No's 2 and 11 were listed as complete, with the full estimated cost of each project having already been expended. However, the expend to date figure was duplicated in the 'forecast expend' for each project, which resulted in DOTARS making payment to Council based on this incorrect forecast expenditure. As a consequence, the City of South Perth received \$361,655 in R2R funds based on a forecast that \$188,832 would be spent on Project No's 2 and 11 by 31 October 2004. By 31 October 2004, none of this amount had been spent.

In July 2005, ANAO sought Council's advice on whether the August 2004 payment, and the \$32,701 final payment made in February 2005, had been spent on R2R projects. In August 2005, Council advised ANAO that it acknowledged that an error occurred in the reporting of actual expenditure and forecast expenditure in the August 2004 Quarterly Report. Council further advised ANAO that:

While it is now clear that more attention should have been made to the preparation of the Quarterly and Annual Reports, the errors acknowledged are an honest mistake and, while not beyond our control, was not done intentionally or as an attempt to circumvent the Guidelines as established.

It terms of the use of the funds paid in August 2004 and February 2005, Council advised ANAO that its three remaining projects were undertaken in the third quarter of 2004–05 and completed by June 2005, with all R2R funds spent.

Source: ANAO analysis of DOTARS and Council data and related correspondence.

## Payout of R2R allocations

**4.65** In mid-2004 DOTARS began contacting LGAs that had claimed a relatively small proportion of their allocation up until this time. DOTARS advised such LGAs that:

As the current *Roads to Recovery* Program ends on 30 June 2005, we have analysed the expenditure of all councils to identify councils who are underspending and are now running a serious risk of forfeiting the balance of their allocation. It is important to note that funds not claimed and spent under the current Program by 30 June 2005 will be forfeited as there is no provision to roll funds over into the new Program which will be administered separately.

As at the end of the 2003–04 financial year, your council has only claimed \$X (Y% of Life of Program) [the amount and percentage was specified for each council] of its Life of Program allocation of \$[amount was specified for each council].

In order to resolve this issue, council is requested to review its work schedules (adding new projects as required) and to commence work on these projects as soon as possible. The next quarterly reporting period commences on 1 August 2004 and will close 15 August 2004. Councils may claim the balance of their allocations in this quarter providing their report supports the payment, bearing in mind that all funds must be spent by 30 June 2005. It is anticipated that this report will show an increase in councils spending in order to claim the balance of funds in the 2004–05 financial year.

**4.66** In December 2005, DOTARS advised ANAO that this correspondence was intended to alert LGAs to their entitlements and ensure that they had an achievable works program for the funds available within the timeframe set out in the Act. At this time, DOTARS further advised ANAO as follows:

The advice to councils was not intended to accelerate funding but to ensure that councils were aware that this was the last year of the program.

It is important to note that Roads to Recovery staff were in contact with councils and their peak associations and the perception was that councils would spend the available funds. As councils had indicated they would spend the funds provided in the timescale specified by the Government, options for the expenditure of these funds after 30 June 2005 were not investigated.

**4.67** As a result of the DOTARS advice, many LGAs significantly increased the funds sought. Indeed, the total amount paid to LGAs based on August 2004 and November 2004 Quarterly Reports was \$206.8 million,<sup>147</sup> or more than 17 per cent of total Program funds. The following case study provides an example.

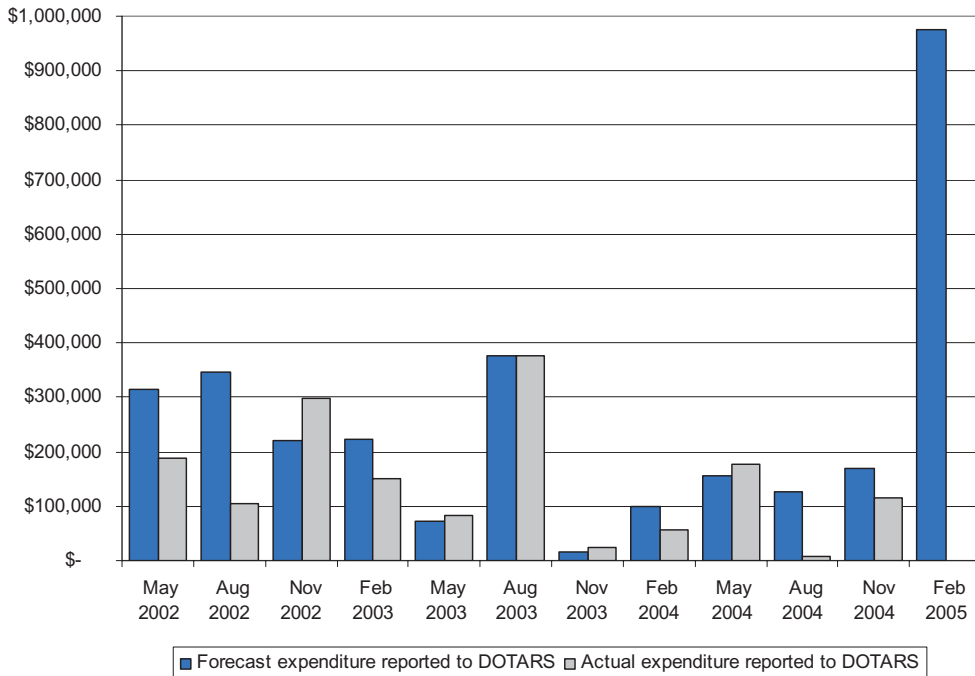
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<sup>147</sup> Payments were made on 26 August 2004, 13 September 2004, 25 November 2004, 9 December 2004 and 24 January 2005.

## Case Study No.4.6: Newcastle City Council, New South Wales

In February 2005, Newcastle City Council was paid \$923,875 by DOTARS. This was by far the largest single R2R payment received by Newcastle City Council. This payment brought payments to Newcastle City Council to the full amount of its allocation (\$2,996,619).

The February 2005 payment was primarily the result of a significant increase in expenditure forecast for the next three months included in the February 2005 Quarterly Report. This is demonstrated by the following chart. In total, \$976,721 was forecast to be spent between February and April 2005 on six projects.



In response to ANAO's request for an explanation for the significant increase in forecast expenditure, in August 2005, Newcastle City Council advised ANAO as follows:

DOTARS advised Council that the full funding allocation needed to be claimed in February 2005 prior to the end of the program. As only \$20,000 was claimed against Project 23, Minmi Road, the remaining \$290,073 needed to be claimed which represented a significant proportion of the funding allocation. As previously stated, this project was not to have physically commenced until end June 2005. As the R2R web site has not been available for reporting since February 2005, Council has not been able to provide updated expenditure reports.

Financial data provided to ANAO by Council showed that, by 30 April 2005, only 15 per cent of the \$976,721 had been spent. By 30 June 2005, expenditure had risen to 57 per cent. In its 2004–05 R2R Annual Report, Council disclosed that \$415,923 of the amount forecast to be spent by 30 April 2005 had not been spent by 30 June 2005. In November 2005, DOTARS wrote to Council advising that:

I note in the report that \$415,923 was not spent as at 30 June 2005 and has been brought forward for expenditure in the current financial year. There is no problem with this. However, in order to avoid confusion, I am writing to advise that your council will need to prepare two annual reports for 2005–06. The funds provided under the original Roads to Recovery Program will need to be acquitted in accordance with the requirements of that Program and the funds provided under the new Auslink Roads to Recovery Program will need to be acquitted under its requirements which are somewhat different.

You should also write to advise us of the projects that you intend to undertake with the funds carried forward.

Source: ANAO analysis of DOTARS and Council data and related correspondence.

### *Deadline for use of funds*

**4.68** DOTARS' advice to LGAs on whether R2R funds needed to be spent by the end of the Program on 30 June 2005 varied considerably.

**4.69** In mid-2004, some LGAs were advised by DOTARS that funds not claimed and spent by 30 June 2005 would be forfeited.<sup>148</sup> Of the 93 LGAs in ANAO's sample, four received this advice from DOTARS.

**4.70** In June 2005, DOTARS wrote to LGAs following questions from a number as to how long they had in which to spend funds received under the R2R Program. DOTARS advised LGAs as follows:

Your council has received its full allocation under the current Program but you may have *Roads to Recovery* funds still on hand. The *Roads to Recovery Act* does not specify a date by which these funds must be spent, but councils are obliged to spend funds received under the Act on roads expenditure. Except where there are extenuating circumstances, councils are obliged to spend funds they have already received on the projects for which it was allocated within a reasonable timeframe.

Councils holding funds for extended periods without reasonable explanation can expect this to impact on the provision of funding under the new Program. If you are having difficulties spending funds already allocated due to extenuating circumstances, you should contact the Roads to Recovery team.

### **Post-payout accountability arrangements**

**4.71** After making the final payment to LGAs, DOTARS wrote to most advising that:

Your council received \$[amount paid] which brought payments to your council over the life of the program to \$[total of amounts paid] which is the full amount to which your council is entitled under the program. Your council will therefore receive no further payments under this program.

**4.72** However, DOTARS did not take a consistent approach to the accountability arrangements for LGAs once they had been paid out (see Table 4.3). Some LGAs were asked to continue to submit both Quarterly Reports and R2R Annual Reports until such time as all R2R funds had been spent. Others were only asked to submit R2R Annual Reports.<sup>149</sup> A small number were not asked to submit any further Quarterly Reports or R2R Annual Reports.

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<sup>148</sup> In December 2005, DOTARS advised ANAO that the statement in its letter to LGAs that 'all funds must be spent by 30 June 2005' should have said all funds should be 'claimed'.

<sup>149</sup> In December 2005, DOTARS advised ANAO that the text of the standard letter to LGAs evolved over time and reflected the circumstances when it was written. For example, LGAs paid out in May 2005 would not have been asked to provide Quarterly Reports because the IT system was not capable of accepting these reports after May 2005. There were only two LGAs in ANAO's sample of 93 that were paid out in May 2005.

**Table 4.3****Reports requested by DOTARS from LGAs after final R2R payment made**

Category	2000–01	2001–02	2002–03	2003–04	2004–05	Total
Quarterly Reports and Annual Reports	0	0	2	15	14	31
Annual Report Only	0	0	0	0	51	51
No Reports Requested	4	1	2	1	3	11
<b>Total</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>16</b>	<b>68</b>	<b>93</b>

Source: ANAO analysis of DOTARS data.

*Post-payout provision of reports by LGAs*

**4.73** As outlined in Table 4.3, DOTARS requested 31 LGAs to continue to submit Quarterly Reports and Annual Reports until all R2R funds had been spent. However, only 10 (32 per cent) of these LGAs submitted any Quarterly Reports after they received their final payment. ANAO found that DOTARS did not pursue the provision of Quarterly Reports from the other 21 LGAs that had been asked to provide Quarterly Reports until all funds had been spent. Even where Quarterly Reports were submitted, ANAO found that DOTARS did not have procedures in place to analyse these reports.

**4.74** LGAs may have added new or different projects to their work schedules after being paid out. In the absence of obtaining and analysing Quarterly Reports, DOTARS was not in a position to scrutinise whether or not funds were being used on projects that were in accordance with the definitions of the R2R Act. ANAO's analysis revealed that at least 15 LGAs in ANAO's sample added projects to their work schedules after the quarter in which they were paid out.<sup>150</sup>

**4.75** In this context, the following case study provides an example of an LGA in ANAO's sample that did not provide post-payout Quarterly Reports to DOTARS, although DOTARS had requested these at the time of the final payment. In addition, this LGA did not prepare and submit a 2003–04 R2R Annual Report until July 2005, after ANAO had pointed out that this report had not been provided to DOTARS. The case study demonstrates that, had DOTARS obtained such information, issues concerning the timely completion of R2R-funded works and expenditure of R2R funds could have been identified and acted upon prior to this performance audit.

<sup>150</sup> A further 35 LGAs did not add projects to their works schedules after being paid out. There was insufficient data held by DOTARS to identify whether or not the remaining 43 LGAs in the representative sample had added projects to their work schedules after being paid out.

## Case Study No.4.7: Glamorgan Spring Bay Council, Tasmania

Glamorgan Spring Bay Council is located on the east coast of Tasmania. The municipal area of just over 25 square kilometres encompasses Freycinet National Park and the towns of Buckland, Orford, Triabunna, Swansea and Bicheno.

Glamorgan Spring Bay Council received an R2R allocation of \$819,609. By June 2004, it had claimed \$413,125 or 50 per cent of its allocation. DOTARS wrote to Council requesting that its work schedule be reviewed (adding new projects as required) and that work commence on these projects as soon as possible. Council was advised that it could claim the balance of its allocation in the August 2004 Quarterly Report, providing the Report supported payment, bearing in mind that all funds must be spent by 30 June 2005.

Council's August 2004 Quarterly Report included expenditure to date and forecast expenditure totalling \$819,609 across 28 projects. As this amount equated to Council's allocation, it was paid \$406,484 in August 2004 thereby bringing payments to the full amount of its allocation.

In early July 2005, ANAO visited Glamorgan Spring Bay Council. This was some 11 months after the August 2004 Quarterly Report had been submitted by Council in order for it to be paid out. The site inspections and ANAO's analysis of R2R Quarterly and Annual Reports submitted by Council revealed that:

- the August 2004 payout had been based, in part, on six projects being completed by 31 December 2004 but four of these Projects had not been undertaken at the time of ANAO's visit (the works location description for a fifth project was incorrect);
- when making the final payment to Council, DOTARS had requested that R2R Quarterly Reports and R2R Annual Reports be provided until all funds had been spent. However, no further Quarterly Reports were provided to DOTARS after the August 2004 payout. ANAO also drew Council's attention to the absence of an R2R Annual Report for 2003–04. This was subsequently prepared and provided to DOTARS in July 2005 (it was due by 30 September 2004); and
- various financial errors existed in the R2R Quarterly and Annual Reports together with errors in works schedule reporting on the start and completion dates for R2R projects.

In August 2005, Council advised ANAO that it had 'instituted a series of works, both to complete the current program and rectify the various matters identified'. Council further advised that all works were to be completed by the end of August 2005. In this respect, photographs were supplied by Council to demonstrate that work was now underway on the four projects that had not been undertaken at the time of ANAO's visit. The following photographs are two examples.



Source: ANAO site visit and analysis of DOTARS and Council data and related correspondence.

**4.76** In relation to Auslink Roads to Recovery, in December 2005 DOTARS advised ANAO that clause 4.9 of the Funding Conditions requires LGAs to submit Quarterly Reports while they have unspent funds and irrespective of whether they are seeking further funds. DOTARS further advised that:

It is true that the Department has not been able to scrutinise all council projects. However:



- the letter sent to all councils with carry overs in 2005–06 (example in Case Study 4.6) requires councils to advise us of the use of funds post 30 June 2005 and this provides the opportunity to check projects for compliance; and
- under the new Program, councils are no longer able to substitute works projects after they have been paid for a project reported as completed and all projects are now closely scrutinised to ensure compliance with the Funding Conditions.

## Recommendation No.7

**4.77** ANAO *recommends* that, where Local Government Authorities have received their final Auslink Roads to Recovery payment, DOTARS promote the achievement of Program outcomes and protect the Commonwealth's financial interests by:

- (a) implementing effective follow-up procedures where reports on the use of Roads to Recovery funds are not provided in a timely manner, or not provided at all; and
- (b) considering the merits of recovering some or all of the funding where the funds have not been spent within the prescribed period of time.

### *DOTARS response*

**4.78** DOTARS agreed to both parts of the recommendation and commented that:

No.7(a): Agree. Follow up procedures were already in place at the end of this program. Of the 13 councils followed up, all but two have spent the funds and these are being monitored regularly.

No.7(b): Agree. Clause 1.4 of the funding conditions for Auslink's *Roads to Recovery* Program requires councils to spend money within six months of receipt. Where a council fails to spend the money within this time, it will be required to provide explanations. Where an explanation is not provided or is unsatisfactory, further funding may be withheld until the money is spent or a satisfactory explanation is provided. In serious cases, the possibility of recovering the money will be considered. This would need to be administered with sensitivity and care.

## Auslink Roads to Recovery

**4.79** A number of changes have already been made in the Auslink Roads to Recovery Payment Conditions and Notes on Administration to address the timely expenditure of Auslink Roads to Recovery funds. Specifically:

- clause 1.4 of the Funding Conditions states that funding recipients must ensure that Auslink Roads to Recovery payments are spent within six

months of receipt of the payment (although Condition 1.4 also notes that the Minister has the power to waive this and any other conditions);

- clause 1.5 of the Funding Conditions states that funding recipients must spend all Auslink Roads to Recovery payments by 31 December 2009; and
- clause 1.6 of the Funding Conditions states that, if a funding recipient receives an amount as interest in respect of an Auslink Roads to Recovery payment, the recipient must spend an amount equal to that amount on the construction or maintenance of roads.

**4.80** In relation to this last change, four LGAs in ANAO's sample advised ANAO that they had invested R2R funds. Of these, two further advised ANAO they reinvested the interest earning in R2R road works. The four LGAs were:

- The City of Greater Bendigo in central Victoria. ANAO had raised concerns that Council reported forecast expenditure on a number of projects but analysis of subsequent Quarterly Reports revealed that little, or no, further expenditure was reported on these projects. In September 2005, Council advised ANAO that two of these projects had been delayed because of contractor delays and/or drought (the latter caused a backlog in the availability of Council's earthworking machinery). Council further advised that, while the projects were delayed considerably, the funds were held by Council and invested with financial institutions along with other Council surplus funds.
- Strathbogie Shire Council in North East Victoria. This LGA advised ANAO in September 2005 that unspent R2R funds were included in the funds invested by Council (see Case Study No. 4.1).
- Pine Creek Community Government Council, situated in the Northern Territory 220 kilometres south of Darwin. This LGA received its entire R2R allocation in 2000-01 as part of the accelerated funding arrangements. However, Council's Quarterly and R2R Annual Reports revealed that Council's full allocation of funds remained entirely unspent until September 2004. Council disclosed this fact to DOTARS in each of the Quarterly Reports and R2R Annual Reports it submitted. The Council had advised that Stage 1 was delayed for a long period of time pending approval from the Northern Territory Government and then it was deferred due to proposed future mining operations. In September 2005, Council advised ANAO that estimated interest of \$20,686 was added to R2R funding.
- The Shire of Melton located in Victoria, west of Melbourne, near Melbourne Airport. Melton Shire Council received its R2R allocation in

two instalments. The first payment was made in 2000-01 when accelerated funding of \$1,540,000 was provided for two R2R projects. A final payment of \$109,210 was made in May 2002. ANAO's analysis of Quarterly Reports revealed that the two projects covered by the accelerated funding cost significantly less than their estimated cost. Council provided evidence to ANAO that it had received \$61,349 in interest on R2R funds over the period 2001 to 2003 with these additional funds used for local road projects throughout the Shire, including the maintenance of bridges.

**4.81** In terms of the timely expenditure of funds, the Auslink Roads to Recovery Notes on Administration state that:

LGA expenditure will be monitored and LGAs holding substantial Commonwealth funds for extended periods will be asked to explain. LGAs should advise the Department in writing of any extenuating circumstances.

**4.82** The Notes also explicitly recognised that there are circumstances where it may not be possible for funds paid to LGAs to be used within six months of receipt. Examples noted are a failure to obtain State Government planning permission, problems with contractors, early onset of the wet season and drought.

**4.83** In this context, ANAO considers that there would be benefit in further changes to the funding arrangements to reflect the inherent uncertainties in road works, and the risk of errors in Quarterly Reports. In addition, ANAO considers that the Funding Conditions should reflect the principle that LGAs should not be penalised, or receive a financial advantage, from legitimate delays in using Roads to Recovery funds.<sup>151</sup>

**4.84** ANAO also considers that there is a risk that the approach taken in the Funding Conditions to identifying and calculating the benefit to LGAs (and cost to the Commonwealth) of funds not being used in a timely manner may be administratively complex for LGAs. There are also circumstances where it may be difficult for DOTARS to identify whether LGAs have earned interest on Commonwealth funds and, if so, the amount of interest.<sup>152</sup> Such risks can be addressed through transparent accounting arrangements within LGAs, with interest being calculated using a predetermined interest rate. Where this is not

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<sup>151</sup> In the initial Roads to Recovery Program, paying LGAs up to three months in advance of need provided LGAs with a considerable financial advantage (estimated to be up to \$14.7 million). The current Auslink Roads to Recovery Funding Conditions continue to provide funds quarterly in advance. As noted in paragraph 4.79, the Auslink Roads to Recovery Funding Conditions state that funding recipients must ensure that Auslink Roads to Recovery payments are spent within six months of receipt of the payment.

<sup>152</sup> Money is fungible, meaning that each unit is identical to, and therefore interchangeable with, another.

possible or is inefficient, Auslink Roads to Recovery funds may need to be held separate from other funds.<sup>153</sup>

## Recommendation No.8

**4.85** ANAO *recommends* that DOTARS address the risks and costs of paying Local Government Authorities in advance of their needs, or of funds not being used by Local Government Authorities in a timely manner, by:

- (a) introducing systems and procedures for the efficient and timely analysis of all Quarterly Reports and R2R Annual Reports submitted by each Local Government Authority prior to making Auslink Roads to Recovery payments so as to better match payments to Local Government Authority cash flow needs; and
- (b) amending the Auslink Roads to Recovery Funding Conditions so that local government is neither penalised nor receives a financial advantage from legitimate delays in using Roads to Recovery funds by requiring Local Government Authorities to either:
  - (i) calculate interest from the date of receipt until funds are spent using a predetermined interest rate, with this amount required to be spent on roadworks; or
  - (ii) deposit the funds in a separate bank account until used with all interest earned required to be spent on roadworks.

### *DOTARS response*

**4.86** DOTARS agreed to both parts of the recommendation and commented that:

No.8(a): Agree. Analysis will commence on receipt of the 2005-06 annual reports. IT support will be provided as part of the Auslink IT support arrangements to be implemented about July 2006.

No.8(b): Agree. The funding conditions (clause 1.6) determined by the Minister on 2 August 2005 require interest earned to be directed on roads.

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<sup>153</sup> On this approach, DOTARS advised ANAO in December 2005 that:

Councils receive funds under many different programs from many agencies in both the Commonwealth and State Governments. It would be onerous to required councils to have separate bank accounts for each Program and may itself generate errors, especially with smaller councils. There would be a real cost to councils in doing this which in many cases will more than offset the small amount of interest earned.

Nevertheless, ANAO notes that it is not unusual for Commonwealth grants programs to require separate banking of funds.

## 5. Special Project Allocations

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*This paper examines the administration of the R2R Program funding that was allocated to certain LGAs for specified projects in Western Australia and South Australia.*

### Overview

**5.1** In line with the FAGs arrangements for WA, at the commencement of the R2R Program, 7 per cent of WA's R2R funding allocation was held back from WA LGAs for distribution on bridges and Aboriginal access roads Special Projects. The amount was \$12.6 million, over four years.

**5.2** Similarly, in line with the FAGs arrangements for SA,<sup>154</sup> at the commencement of the R2R Program, 15 per cent of SA's R2R funding allocation was held back from SA LGAs for distribution on special local roads projects. The amount involved was \$15 million, over four years.

### Administrative arrangements

**5.3** In August 2001, the then Minister for Transport and Regional Services wrote to the relevant State Ministers proposing that the existing mechanism for selecting projects under the FAGs arrangements be adopted for the R2R Special Projects components. The only two differences from the FAGs arrangements that were proposed involved:

- recommended projects being submitted to the Australian Government Minister for Transport and Regional Services for approval; and
- LGAs being paid direct by the Australian Government.

**5.4** The August 2001 correspondence sought agreement from both State Ministers to the proposed arrangements, including notification of local government's endorsement of them, and acceptance of the R2R Program's Conditions and Guidelines. In October 2001, both State Ministers wrote to the then Minister for Transport and Regional Services agreeing to the proposed arrangements, and attaching nominated projects for the Minister's approval. The correspondence from the SA Minister did not, however, include the

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<sup>154</sup> In SA, 15 per cent of FAGs to the State are pooled for works on roads of regional significance. These funds are allocated through a consultative process involving the SA Local Government Association, the State Department of Transport and the SA Local Government Grants Commission (SALGGC). The FAGs funding does not require reconciliation of the use of the funds to the Commonwealth.

requested statement of acceptance of the R2R Program's Conditions and Guidelines.<sup>155</sup>

**5.5** In December 2001, the then Minister for Transport and Regional Services wrote to each State Minister approving those projects nominated in the October 2001 correspondence. In the case of SA, the Minister approved the first year's projects amounting to \$3.75 million. For WA, the full \$12.6 million worth of projects were nominated and subsequently approved by the then Minister. The correspondence sent to each State Minister specified the following administrative arrangements:

The projects should be entered into the Programme's secure web site for the Local Government Grants Commission of [xx] and the first payment, equal to half the year's allocation, will be made when this is done. Subsequent payments will be made on the basis of the information provided in quarterly reports.

I understand that the Grants Commission will pass the funds on to the relevant local government bodies and be responsible for the audit provisions under section 7, Part B of the *Roads to Recovery* Guidelines.

**5.6** In response to the proposed administrative arrangements for the 7 per cent of WA R2R funds set aside for bridge and Aboriginal access road projects, in January 2002 the WA Local Government Grants Commission (WALGGC) wrote to DOTARS advising:

I believe it is not appropriate and outside the Grants Commission's role and resources for it to remain the recipient body. The reporting requirements are onerous for the Commission considering that it is not undertaking or overseeing the projects. It would be unrealistic to expect the Commission to be able to certify that a local government has complied with all conditions; only a Chief Executive Officer for the specific local government could reasonably so this. It is inappropriate for the Commission to be the accountable authority when in fact the accountability rightfully belongs to the Chief Executive Officer of the specific local government. Moreover, I believe that making the Grants Commission the recipient body adds an unnecessary additional layer of administration to the program. The Commission could not meet the reporting requirement without extensive liaison with the local governments.

As the local governments are already providing reports to the Commonwealth, and the Commonwealth are making payments direct to the local governments, it would be reasonable for the same administrative

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<sup>155</sup> In December 2005, DOTARS commented to ANAO that 'the SA Minister did not include the requested statement of acceptance of the Program Conditions and Guidelines, however clause 13 of the Funding Conditions states that 'in providing bank account details to the Commonwealth and accepting Program funds, the LGA is deemed to have accepted these Conditions and to be bound by them'. Nevertheless, the Funding Conditions refer to an LGA not an intermediary (such as the Grants Commissions) and, as outlined in Chapter 3, the Funding Conditions were only enforceable against LGAs in limited circumstances.

arrangements to apply to the 7% special project component. To this effect, I would request that you make the necessary arrangements for the Commonwealth to deal directly with the relevant councils on this component, and to de-gazette the WA Local Government Grants Commission as the recipient body.

**5.7** The funding allocation list for the R2R Program had originally been gazetted on 14 February 2001. This list included the WALGGC as the recipient of \$12.6 million in R2R funds. However, in light of the WALGGC's decision not to act as an intermediary, on 8 May 2002, the original gazetted list was replaced by a new list that included a supplementary allocation for each of the 35 LGAs that were to receive funds for one or more WA Special Projects. However, in SA, the SA Local Government Grants Commission (SALGGC) took on the additional administrative responsibilities as per the Minister's letter of December 2001.

**5.8** In this context, the administrative arrangements for the SA Special Allocation differed significantly from the approach adopted for other payments made under the provisions of the R2R Act. Specifically, funds were not provided direct to LGAs for expenditure on the construction, upgrade and maintenance of roads. Instead, the \$15 million in SA Special Allocation funds were paid to the SALGGC<sup>156</sup> who on-paid the relevant LGAs. The SALGGC also acted as an intermediary in the administration of, and accountability for, these funds. Figure 5.1 summarises the arrangements.

**5.9** In December 2005, the SALGGC advised the ANAO that:

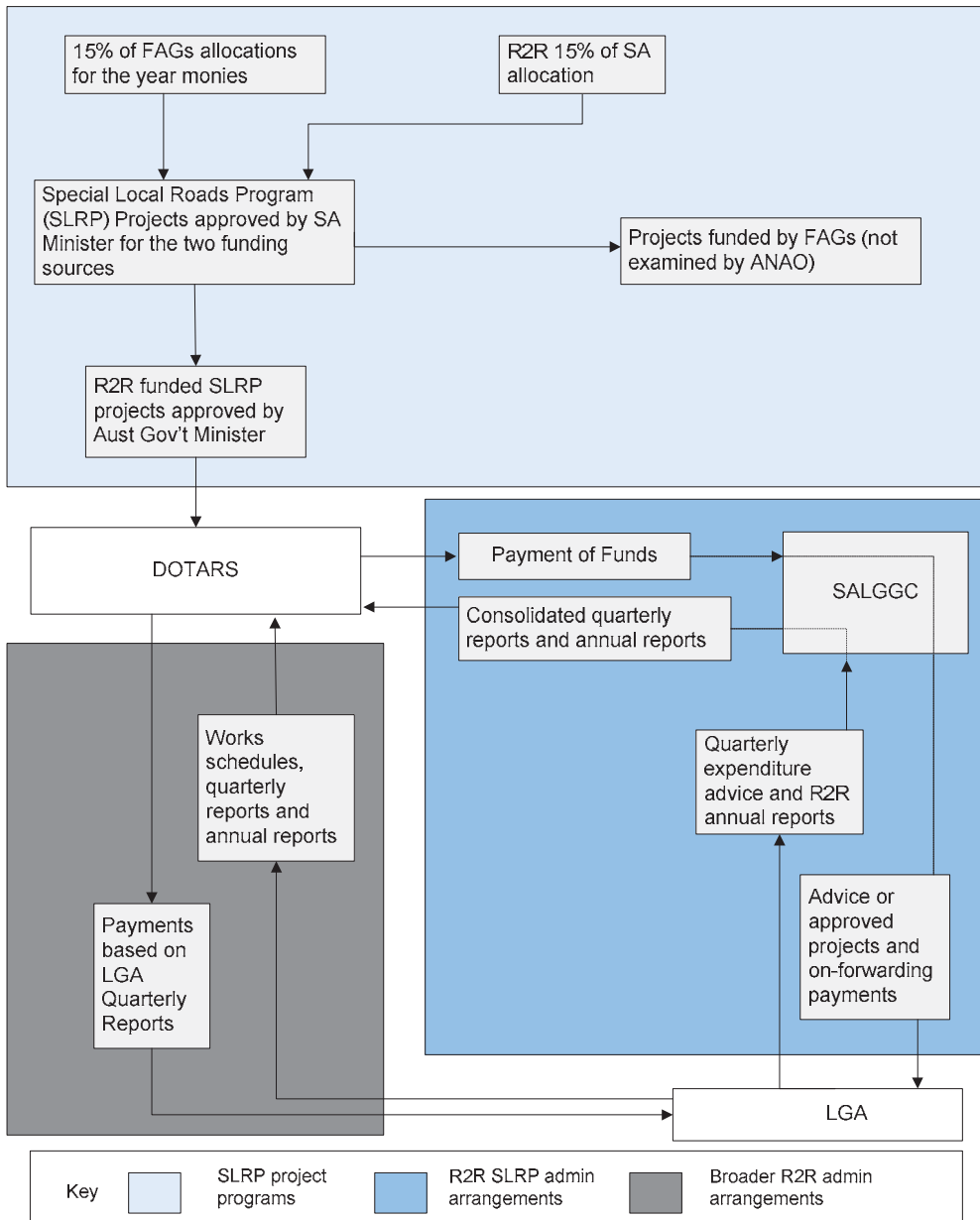
The SALGGC have administered these funds on behalf of the Commonwealth to the best of its ability. It has at times been an onerous process as the SALGGC is not a council and there is little or no flexibility within the guidelines to recognise the role of the SALGGC in the administrative process. This being said, the holistic approach by local government in this state by requesting the SALGGC to administer these funds on its behalf, should be applauded and one which we do not seek to change.

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<sup>156</sup> The SALGGC was identified in the published list as the funding recipient for the SA Special Allocation of \$15 million.

**Figure 5.1**

**Funding arrangements for SA Special Local Roads Program**



Source: ANAO analysis of DOTARS and SALGGC data



## R2R Funding Conditions and Administrative Guidelines

**5.10** The R2R Funding Conditions and Administrative Guidelines did not address the special local roads component of the R2R Program, including accountability where funds were paid to LGAs through a third party.

**5.11** This oversight has not been addressed in the Auslink Roads to Recovery Program. The Auslink Roads to Recovery Funding Conditions and Notes on Administration include new requirements to ensure that amounts that the Australian Government has specified be spent on particular projects actually be spent on these projects, and are separately accounted for. A separate section was also included in the Notes on Administration addressing the WA Bridges and Aboriginal access roads allocations. However, the payment of funds to LGAs through an intermediary such as the SALGGC, and accountability for related projects and funds, have not been specifically addressed.

## South Australian Special Projects

**5.12** In total, 63 projects were approved for 35 individual LGAs and six regional associations. The latter represented a number of LGAs working together to develop regional plans of strategic road networks. Table 5.1 illustrates the number of special local roads projects and amounts approved for funding over the life of the R2R Program.<sup>157</sup>

**Table 5.1**

### Number and amount of South Australian Special Projects approved

Date of approval	Amount	Number of Projects
20 December 2001	\$3.75 million	19
15 October 2002	\$2.50 million	12
26 August 2003	\$3.75 million	16
31 August 2004	\$5.00 million	16
<b>Total</b>	<b>\$15.00 million</b>	<b>63</b>

Source: ANAO analysis of DOTARS records.

**5.13** As part of this audit, ANAO inspected works conducted on three<sup>158</sup> of those roads that received \$585,000 of the Special Local Roads Program (SLRP) funding. The following case study provides an example.

<sup>157</sup> Of the 63 approved projects, a number of SA LGAs received funding for the same project over a number of years. Also, a number of LGAs received approval for more than one project.

<sup>158</sup> ANAO inspected the work undertaken on Valiant Road in the City of Tea Tree Gully (\$117,000); Ashwin Parade in the City of West Torrens (\$196,000); and the Orroroo to Laura Road in the District of Orroroo-Carrieton (\$272,000).

## Case Study No.5.1: Orroroo to Laura Special Local Road Project, South Australia

The Orroroo to Laura road is located in farming country in the southern Flinders Ranges between the Pekina Range and Narien Range. It provides a major freight route to Gladstone as well as being an important cross-country link and tourist road. The road passes through three LGAs being the Northern Areas Council, the District Council of Mount Remarkable and the District Council of Orroroo-Carrieton. The latter two LGAs were included in ANAO's sample of 93 LGAs.

In March 2002, the three LGAs submitted a combined application as part of the SA Special Local Roads Program to seal the Orroroo to Laura road. This Program is a State Government program managed by the SA Local Government Grants Commission. Constructing and sealing the 50.1 kilometres of unsealed road was estimated to cost \$7,072,180. This proposal was approved as part of the Special Local Roads Program. Funding for the works was divided between the pooled FAGs amount, the R2R Special Allocation for South Australia and funds contributed by the LGAs themselves (required to be one third of the project cost for rural councils).

In relation to the funds contributed by LGAs, the Northern Areas Council and the District Council of Mount Remarkable made their required contribution using funds from their own sources. However, the District Council of Orroroo-Carrieton used \$671,380 (95 per cent) of its own R2R allocation of \$703,153 as part of its contribution of \$1,074,060 towards the cost of the first 22.1 kilometres of work on the Orroroo to Laura road. In August 2005, Council advised ANAO that its understanding was that it was permitted to use the R2R funds it was allocated as its own contribution towards the cost of this work. This approach was supported by the SALGGC and is supported by DOTARS.

The mixed sources of funding for works undertaken on the Orroroo to Laura road presented challenges to Council in accounting for its R2R funds. For example, Council's final R2R Quarterly Report submitted to DOTARS in February 2005 stated that the estimated cost of works it was funding from its R2R allocation was \$1,300,000 with expenditure to date of \$856,843. As Council's total R2R allocation was \$703,153, it was not possible for Council to have spent \$856,843 of its R2R allocation on this work.

In comparison, Council's R2R Annual Report financial statements up to 2003–04 (the 2004–05 Annual Report had not been submitted as of November 2005) only accounted for those funds paid direct to Council by DOTARS. However, the statements of outcomes included within the Annual Reports did not discriminate between work funded through Council's own R2R allocation and works funded through the SA Special Allocation. Specifically, between 2001–02 and 2003–04, Council's R2R Annual Reports stated that a total of 4.4 kilometres had been reconstructed and sealed as part of the 8.4 kilometre first stage of works. In this respect, the following photograph illustrates the beginning and end of the 4.4 kilometres of reconstruction and sealing work completed at the time of ANAO's April 2005 site inspection.



Source: ANAO site visit and analysis of DOTARS, Council and SALGGC data and related correspondence.

## Payment procedures

**5.14** The SALGGC, as the funding recipient in the published list gazetted at the commencement of the R2R Program, had responsibilities similar to those of LGAs. This included responsibility for entry of project details in works schedules, and the submission of Quarterly and Annual Reports. This was reflected in DOTARS R2R Circular 2002/4 issued on 19 March 2002 to all SA LGAs which stated as follows:

There are special requirements for councils receiving *Roads to Recovery* funds through the SA Local Government Grants Commission. The Commission must submit a Quarterly Report to us to receive its payments and this report will need to be based on information provided by you to the Commission. You will therefore need to provide the same information (expenditure to date and projected expenditure during the next three months) on the Commission funded projects as it will need to be provided to us. This information will be required by the Commission by 7 May.

**5.15** The first payment to the SALGGC was made in January 2002. A total of \$1.875 million was paid after the SALGGC entered details for projects approved for 2001–02 into the R2R website. This amount was equal to half of the full-year allocation.

**5.16** Subsequent payments to the SALGGC were made based on the information provided in the Quarterly Reports submitted by the SALGGC. This was the same as for payments made direct to LGAs as part of the broader Program.

**5.17** The SALGGC's Quarterly Reports submitted to DOTARS were based on data the SALGGC sought from LGAs by telephone and by email. At times the information obtained was not documented. As a result, it was not possible to substantiate the basis for some of the expenditure and forecast expenditure included in Quarterly Reports submitted by the SALGGC to DOTARS.

**5.18** Generally, once the SALGGC was aware that R2R funds had been paid by DOTARS into its bank account, the funds were on-paid to the LGAs who had approved projects in that financial year. In most instances these payments were in accordance with the expenditure/forecasts entered into the Quarterly Report and submitted by SALGGC. However, in a number of instances the payments made to LGAs by SALGGC did not reflect either the expenditure to date or forecast expenditure for the following quarter.<sup>159</sup>

**5.19** Unlike the broader R2R Program, projects identified in the SALGGC's works schedule related to separate LGAs. As a result, unused funds paid to

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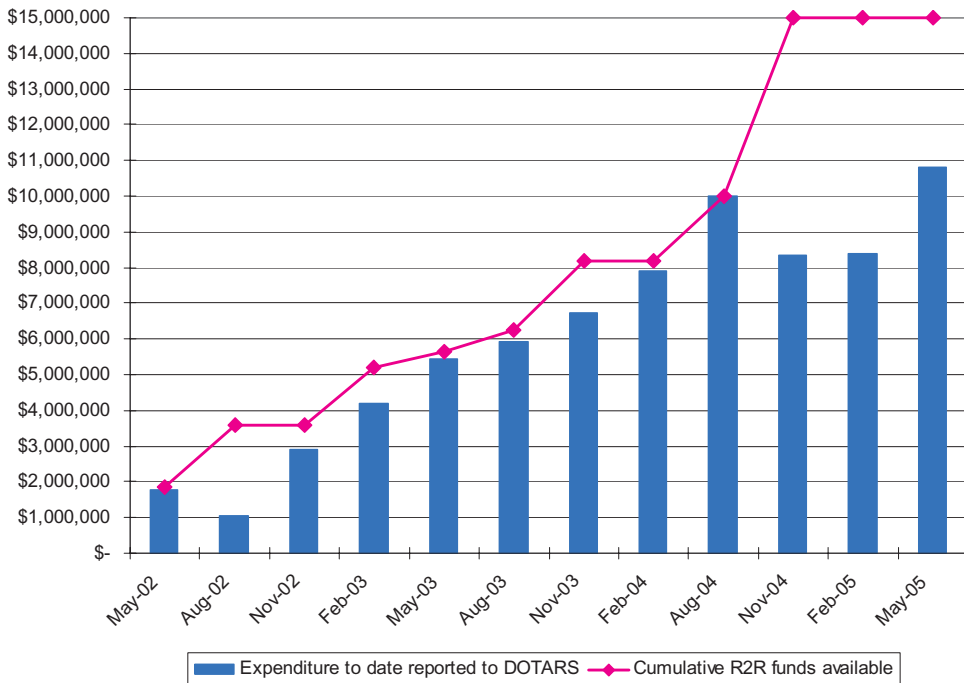
<sup>159</sup> For example, Project No.29: the City of Mitcham had a forecast expenditure figure of \$169,000 in the November 2002 Quarterly Report yet this LGA was paid only \$10,000. The following quarter the project had no reported expenditure to date and forecast expenditure of \$10,000 yet Council was paid \$328,000.

one LGA/regional association for its project were unable to be used on other R2R SLRP projects.<sup>160</sup> Instead, additional funds were obtained from DOTARS for on-payment by the SALGGC. As demonstrated by Figure 5.2, this involved a financial cost to the Australian Government. On this issue, in December 2005, the SALGGC advised the ANAO that:

In all instances it is the practice of the SALGGC to onpass any funds directly to local government once it is aware that the funds are in the account. Initially staff had trouble interpreting the column headings, and may have inadvertently entered data into the wrong input box or even entered incorrect data eg in the case of the SALGGC the total project cost, is not the total project cost, but rather the amount of the grant. SALGGC appreciates that in the new web site, headings have been changed and do not anticipate any problems in the future. SALGGC do not accept that this process involved a financial cost to the Australian Government, other than that which was originally intended by the Australian Government. All funds that were approved were allocated by the SALGGC for the approved projects. I believe, that if there is a discrepancy in the expenditure to date figures compared to the amount of funds paid to SALGGC by DOTARS, then it is in the interpretation of the expenditure to date figures as entered by SALGGC into the computer, rather than any lack of spending by the councils involved.

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<sup>160</sup> For example, Project No.35: Franklin Harbour Council had a forecast expenditure of \$450,000 in the August 2003 Quarterly Report. Council was paid the full \$450,000 on 5 September 2003. In the following Quarterly Report the project had expenditure to date of \$210,000 but no forecast expenditure. The \$240,000 that had been paid in September 2003 that had not been spent was not transferred to other LGAs that needed funds for their projects.

**Figure 5.2****Reported expenditure to date and R2R funds paid to SALGGC**

Source: ANAO analysis of DOTARS and SALGGC data.

**5.20** Figure 5.2 shows the total expenditure to date figures reported by the SALGGC in its Quarterly Reports, compared to the amount of funds paid to it by DOTARS. The final, and by far the largest, R2R Program payment was made in September 2004 based on the August 2004 Quarterly Report submitted to DOTARS. The SALGGC was advised to request the funding as a lump sum at the beginning of the financial year. This report stated that expenditure to date on all projects was \$10,000,000 with \$5,000,000 of expenditure forecast for the next quarter.

**5.21** ANAO found that information submitted by LGAs to the SALGGC did not substantiate the August 2004 expenditure to date reported to DOTARS. As shown by Figure 5.2, Quarterly Reports submitted to DOTARS after the final payment was made also demonstrated that the August 2004 expenditure to date figure had been overstated. In addition, the \$5,000,000 in expenditure forecast in August 2004 to be undertaken between August and October 2004 remained substantially unused by 30 April 2005. At this date, the final R2R Quarterly Report submitted by the SALGGC reported that \$4,213,621 remained unspent. This situation also involved a financial cost to the Australian Government.

## Accountability arrangements

**5.22** Funding recipients were required by the R2R Funding Conditions to submit Annual Reports to DOTARS covering their use of R2R funds. In January 2003, the Annual Report requirements for the SALGGC were clarified by DOTARS as follows:

The idea is that the Grants Commission is responsible to the Commonwealth for the money that it receives from the Commonwealth. It is then responsible for ensuring that the councils which receive the money from it properly account for this.

Councils are responsible to the Commonwealth for the funds that they receive directly from the Commonwealth. Although some councils have provided us with two audit certificates, one relating to these funds and the other to the funds they receive from the Grants Commission, strictly speaking we only need the former. Where we have received the latter, we have passed copies to the Grants Commission. Councils are responsible to the Grants Commission for the funds they have received from it.

**5.23** All four Annual Reports were submitted by the SALGGC after the due date of 30 September specified in the R2R Guidelines (see Table 5.2).<sup>161</sup> In this context, two payments amounting to \$2.1 million were made to the SALGGC between the due date of 30 September 2002 and the submission of the 2001–02 Annual Report on 8 April 2003. Specifically, \$1,628,317 was paid on 28 November 2002 and \$437,711 was paid on 27 February 2003. This was despite DOTARS' payment controls requiring that a satisfactory Annual Report be submitted before payments were to be made (see Chapter 4: Financial Management).

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<sup>161</sup> In December 2005, the SALGGC advised ANAO that:

In relation to the accountability arrangements and the submission of audited financial statements, SALGGC is constrained by the work program of the [state] Auditor General (AG). The [state] AG completes the reports as quickly and comprehensively as possible, given their enormous workload. SALGGC having received the signed reports forwards them to DOTARS as quickly as possible. It should be noted that SALGGC is not a council and that in order for the [state] AG to complete the audit successfully he must consult with each council that is a funding recipient, ensuring that they have received the monies, which the SALGGC has reported that it has paid to them.

**Table 5.2****Date of SALGGC Annual Reports submitted to DOTARS**

Year	Due date per R2R Guidelines	Date Annual Report submitted to DOTARS
2001–02	30 September 2002	8 April 2003
2002–03	30 September 2003	12 January 2004
2003–04	30 September 2004	15 December 2004
2004–05	30 September 2005	16 November 2005

Source: ANAO analysis of DOTARS records.

**5.24** As noted by the WALGGC (see paragraph 5.6), having an intermediary account for use of R2R funds on road projects presents difficulties for the intermediary. In this context, the SALGGC Annual Reports submitted to DOTARS, did not address all parts of the R2R Annual Report (see Table 5.3). In this respect:

- the non-completion of all or part of the statement of accountability in each year meant that there has been no assurance obtained by DOTARS on issues such as whether R2R funds have been used solely for roads expenditure as defined in the R2R Act, and whether R2R signage and publicity requirements were met along with other conditions set out in the R2R Funding Conditions and Administrative Guidelines; and
- the outcomes achieved with \$15 million in funds are not known.

**Table 5.3****SALGGC compliance with R2R Annual Report proforma**

Year	Financial Statement (Part 1)	Statement of Accountability (Part 2)	Statement of Outcomes (Part 3)	List of recipient LGAs, amounts and dates paid
2001–02	yes	no	no	yes
2002–03	yes	modified	no	yes
2003–04	yes	no	no	yes
2004–05	yes	no	no	yes

Source: ANAO analysis of DOTARS records.

**5.25** Although DOTARS' January 2003 advice (see paragraph 5.22) to the SALGGC stated that LGAs were responsible to the SALGGC for the funds they received from it, the R2R Funding Conditions did not require LGAs to provide the SALGGC (or DOTARS) with R2R Annual Reports on funds paid to them through the SALGGC. In this context, there were 13 LGAs/regional

associations<sup>162</sup> that did not provide the SALGGC with an R2R Annual Report in one or more years to acquit outstanding R2R funds. Three<sup>163</sup> of these did not submit an R2R Annual Report to the SALGGC in any year.

**5.26** In this context, the SALGGC advised ANAO in December 2005 that:

SALGGC also consults with each council that is a funding recipient, and each must provide to the SALGGC a report as if they were reporting to DOTARS (and fully complying with the legislation). This is an additional SALGGC requirement. SALGGC would be happy in future years to provide these to DOTARS together with the Audited Financial Statements. As discussed with DOTARS the questions following the audited statement, the Statement of Outcomes, is better answered by the councils concerned. At the time of the audit there was, as stated in [paragraph 5.25], some councils/regional associations who had not provided the SALGGC with the required R2R Annual Report. This has now been rectified.

### *Use of funds for road works*

**5.27** Unlike the Annual Reports submitted by individual LGAs, the SALGGC’s Annual Reports did not acquit the amount of R2R monies spent on actual roads projects. Instead, Annual Reports submitted by the SALGGC were simply a record of incoming and outgoing R2R funds from the SALGGC’s bank account. In this context, Table 5.4 illustrates the funds received and on-paid by the SALGGC in each year that the SA Special Allocation operated.

**Table 5.4**

### **Accountability for funds paid to SALGGC by DOTARS**

	30 June 2002 \$	30 June 2003 \$	30 June 2004 \$	30 June 2005 \$
Payments received by SALGGC	3,588,262	2,661,738	3,750,000	5,000,000
Payments made to LGAs	3,343,000	2,907,000	3,750,000	5,000,000
Unexpended funds	245,262	(245,262)	Nil	Nil
Cumulative unexpended funds	245,262	Nil	Nil	Nil

Source: ANAO analysis of DOTARS and SALGGC data.

**5.28** ANAO’s analysis revealed that, in each year the SA Special Allocation operated, LGAs were paid more funds than they reported as being spent. As a result, by 30 April 2005,<sup>164</sup> more than \$4.2 million (28 per cent) of the SA Special

<sup>162</sup> Namely: Barossa; Kangaroo Island; Kapunda Light; Mitcham; Naracoorte & Lucindale; Onkaparinga; Playford; Salisbury; Central Region LGA; Eyre Peninsula LGA; West Torrens; Southern & Hills LGA; and Metropolitan Councils Group.

<sup>163</sup> Namely: West Torrens; Southern & Hills LGA; Metropolitan Councils Group.

<sup>164</sup> Based on 30 April 2005 data reported in the May 2005 Quarterly Report (ANAO fieldwork was completed prior to any 2004–05 R2R Annual Reports being provided to the SALGGC by LGAs/regional associations).



Allocation had not been accounted for as being spent. Of this amount, \$994,448 had not been accounted for (in that the relevant LGA/regional association had not submitted an Annual Report for funds provided prior to 30 June 2004). The remaining \$3,219,173 is the difference between the reported expenditure to date in the May 2005 Quarterly Report and the amount of funds that had been previously acquitted. This is illustrated in Table 5.5.

**Table 5.5**

**Accountability for LGA spending of amounts paid to them by SALGGC**

	30 June 2002 \$	30 June 2003 \$	30 June 2004 \$	30 April 2005 \$
Payments received by LGAs	3,343,000	2,907,000	3,750,000	5,000,000
Reported LGA expenditure	2,069,851	2,839,628	3,394,666	2,482,234
Funds not accounted for	1,273,149	67,372	342,810	2,517,766
<b>Cumulative funds not accounted for</b>	<b>1,273,149</b>	<b>1,340,521</b>	<b>1,683,331</b>	<b>4,213,621</b>
Comprising:				
• No Annual Report submitted	0	1,006,951	994,448	994,448 (carried forward)
• Reported as not spent	1,273,149	333,570	688,883	3,219,173

Source: ANAO analysis of DOTARS and SALGGC data.

## Recommendation No.9

**5.29** ANAO *recommends* that DOTARS develop and implement effective binding funding conditions for Auslink Roads to Recovery projects funded and accounted for through an intermediary (as opposed to direct with a Local Government Authority) including:

- (a) more closely aligning payments to expenditure on road works; and
- (b) clearer lines of accountability for reporting on the use of funds and the outcomes achieved.

### *DOTARS response*

**5.30** DOTARS agreed to the recommendation and advised that 'the arrangements with the SA Local Government Grants Commission will be strengthened. Detail of the new arrangements will be prepared in conjunction with the Commission during March 2006.'

## Western Australian Special Projects

**5.31** Similar to the mechanism for selecting projects under the FAGs arrangements, two-thirds of the \$12.6 million was allocated to bridge projects and one-third to roads serving remote Aboriginal communities. This involved 64 projects across 35 LGAs (see Table 5.6).

**Table 5.6**

### Summary of approved WA Special Projects

Category	Projects	2001–02 (\$)	2002–03 (\$)	2003–04 (\$)	2004–05 (\$)	Total (\$)
Bridges	29	2,094,000	2,053,500	2,119,500	2,133,000	8,400,000
Aboriginal Access Roads	35 <sup>A</sup>	1,049,000	1,051,000	1,048,000	1,052,000	4,200,000
<b>Total</b>	<b>64</b>	<b>3,143,000</b>	<b>3,104,500</b>	<b>3,167,500</b>	<b>3,185,000</b>	<b>12,600,000</b>
Note:						
<sup>A</sup> Some road projects had separate allocations across two or more (and up to four) years.						

Source: ANAO analysis of DOTARS data.

**5.32** In April and May 2002, DOTARS wrote to relevant WA LGAs advising them that the then Minister for Transport and Regional Services had approved a further allocation of R2R funds to them. This correspondence also informed each LGA of the total amount involved, the relevant project or projects, the scope of works to be undertaken and the amount of funds allocated for each project. In some instances, for work to be undertaken during 2001–02, funds had already been provided to the relevant LGA. Other LGAs were advised to enter each project into their R2R works schedule and include them in their normal R2R Quarterly Reports in order to obtain their funds at the appropriate time.

**5.33** Although underlying the additional allocation amounts were individual projects selected through a consultative process,<sup>165</sup> no steps were taken by DOTARS in the gazettal process, or through amendments to either the Funding Conditions or the Administrative Guidelines to require that the allocated amounts be spent on the selected projects. This exposed the Commonwealth to risks that selected projects may not be undertaken and other projects funded instead. ANAO found that both risks have been realised, as outlined below, including in relation to Case Study No.5.2.

<sup>165</sup> For Aboriginal access roads projects, the WALGGC was advised by the Aboriginal Roads Committee of the funding criteria including: the number of Aboriginal people served by a road; the distance of the community from a sealed road; the condition of the road; the proportion of traffic serving Aboriginal communities; and the availability of alternative access. For bridges, Main Roads WA assessed proposals submitted by local councils using bridge condition reports and a bridge management program. Recommendations were then made to the WALGGC by Main Roads WA, based on the priority of bridge maintenance needs.

## Case Study No.5.2: Shire of York, Western Australia

Included in the projects approved by the then Minister for Transport and Regional Services was \$432,500 to widen, concrete overlay and upgrade the footpath on the Glebe Street Bridge in the town of York, within the Shire of York. The work was scheduled for 2003–04. The following photograph shows the Glebe Street Bridge at the time of ANAO's May 2005 inspection of R2R works in the Shire of York.



On 26 April 2005, as part of this performance audit, ANAO wrote to the Shire of York concerning the situation that Council had received all its R2R funds but that no project in relation to the Glebe Street Bridge had been included in any of the Quarterly Reports submitted to DOTARS. The Shire of York responded to ANAO on 2 May 2005 confirming that 'Council has, over the program life, mismanaged the manner in which these funds have been expended'. More specifically, the Shire of York commented as follows:

Council was allocated \$432,500 towards the widening, concrete overlay and footpath upgrade of the Glebe St Bridge, located in the York townsite. Council received official notification of the acceptance of this allocation in May 2002 and again in June 2003, and has received the funds for the work, however has failed to commence the works with the exception of the preparation of preliminary drawings. It would appear that the reason for the non-expenditure of funds is as follows:

- the Glebe St Bridge works were not entered onto the Council's work schedule, located on the Roads to Recovery website, at the time of being notified of the grant approval;
- delays in preparing tender documentation resulted in the work being deferred;
- significant changes in Council staff meant that, over time, the requirement to either expend these funds on the Glebe Street Bridge was "overlooked" or, quite simply, new staff were not aware of the purpose of the funding;
- staff were aware of the requirement to expend \$1,477,038 on Roads to Recovery works, however, being unaware of the Glebe St project, allocated the \$432,500 to other road works projects.

On 3 May 2005, Council issued a press release stating that:

an audit of the Roads to Recovery Programme on the 28<sup>th</sup> April 2005 revealed that \$432,500 specifically allocated for the Glebe Street Bridge upgrading has been inappropriately spent on roadwork's. ...The Shire of York has no options with this funding other than to pay back the Federal Government \$432,500 or complete the works. Completion of the works requires diverting existing funds to the work or raising additional revenue from a rate increase, raising a loan, using existing reserve funds or a combination of these options.

On 10 January 2006, the Shire of York advised DOTARS that contracts for the bridge works had been awarded in late December 2005 with construction anticipated to commence in early February 2006 and, weather permitting, to be completed by 31 May 2006.

Source: ANAO site visit and analysis of DOTARS and Council data and related correspondence.

**5.34** ANAO's analysis revealed a number of instances where, similar to the Shire of York, Special Projects had not been included in work schedules and Quarterly Reports, but the full R2R allocation had been paid to the LGA by DOTARS. In addition, it needs to be recognised that analysis of WA Special Projects was impeded by the inconsistent practices adopted across and within LGAs for identifying their Special Project allocations. Some LGAs specifically identified the relevant projects as involving Special Project allocation funds. Others did not.

**5.35** On 5 May 2005, ANAO drew the Glebe Street Bridge issue to DOTARS' attention. A copy of relevant correspondence was provided to DOTARS on 6 May 2005. As a result, DOTARS contacted other WA LGAs that had received Special Project allocations to obtain assurance that there were no other instances where work had not been undertaken. In October 2005, DOTARS advised ANAO that 'all the projects funded under the special WA programme have been, or are being, undertaken'.

**5.36** ANAO's examination of DOTARS records confirms that relevant LGAs have provided advice to DOTARS to the effect that work had been undertaken. However, these works have not been inspected by DOTARS to confirm the LGA advice. In some cases the work was said to have been funded from sources other than the R2R Program.

**5.37** The situation with the Glebe Street Bridge Project highlights the importance of DOTARS assessing and managing the key risks in the implementation of the R2R Program including procedures to guard against projects not being undertaken. For example, this could have included DOTARS reminding relevant LGAs at the commencement of each financial year of those Special Projects that had been approved for funding in that year.<sup>166</sup>

**5.38** There would also have been value in DOTARS analysing works schedules to identify any LGA that was not proposing to undertake one or more Special Projects, or where Special Project funds had been used on other works. In this latter respect, in response to a DOTARS enquiry of 9 May 2005 about the status of expenditure on the Gibb River-Kalumburu Road (Special Allocation of \$560,000 over four years), Wyndham-East Kimberley Shire Council advised DOTARS as follows:

Council's financial system verifies that the funding has been allocated and expended annually, however with the exception of the 2003/2004 reporting period the expenditure was not recorded during the annual audits and for reasons unknown has failed to appear consistently on our Works Schedules.

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<sup>166</sup> This advice could have been similar to the advice provided to relevant councils in April and May 2002 informing them that the then Minister for Transport and Regional Services had approved an additional allocation to fund specified Special Projects.

The internal audit has revealed that the Shire of Wyndham-East Kimberley has expended in-excess of the allocated funding from the Special Grant, however as we have not claimed the money through the Works Schedule and/or Quarterly Reports the works have been debited from Council's Municipal account.

**5.39** In October 2005, DOTARS advised ANAO that the works on the Gibb River-Kalumburu Road to be funded from the R2R Special Projects allocation have all been done.

### **Reallocation of funds**

**5.40** The WA Special Projects allocation was provided to particular LGAs to address specific needs in accordance with the recommendations of the WA Government. Accordingly, ANAO considers DOTARS' procedures should have guarded against funds allocated for specific projects being diverted, without approval, to other road works.

**5.41** ANAO found that there were three occasions where an LGA had sought, and obtained, approval to reallocate funds from an approved Special Project or Projects to other road works. However, ANAO identified a further 12 LGAs where the R2R reports submitted to DOTARS indicated that funds approved for expenditure on Special Projects had been reallocated, without approval having been sought from either DOTARS or Ministers. These are identified in Table 5.7.

**Table 5.7**

**WA Special Projects with unapproved reallocations of R2R funds**

Approved by Minister			R2R Quarterly Reports		Difference (\$)
LGA	Road	Allocation (\$)	Project No.	Expenditure (\$) <sup>A</sup>	
<b>Bridge Projects</b>					
Albany	Lower King Rd	157,000	5	122,000	35,000
Beverley	Butchers Rd	288,000	11	257,227	30,773
	Potts Rd	126,000	18	125,850	150
Busselton	Gale Rd <sup>B</sup>	27,000	9	24,540	2,460
Cranbrook	Wingbellup Rd	525,000	4	350,373 <sup>C</sup>	174,627
Dardanup	Recreation Rd	192,000	4	182,089 <sup>D</sup>	9,911

Notes:

<sup>A</sup> Expenditure to date plus any forecast expenditure at the time of the final Quarterly Report.

<sup>B</sup> In January 2006, Council advised ANAO that ‘the works were carried out efficiently and consequently actual project cost was below budget. The balance was spent on similar R2R projects in 2002–03. The Shire of Busselton is cognisant of the fact that it did not seek DOTARS approval, which was not stated in the then R2R Program guidelines, but ensured that the balance was spent on R2R projects. The Shire was aware of the auditing requirements and as such fulfilled its obligations.’

<sup>C</sup> Council reduced the estimated cost to \$450,000 in its February 2003 Quarterly Report. In February 2006, Council advised ANAO that:

The allocation of \$525,000 for the Wingbellup Bridge over the Frankland River was made to us without any consultation. As far as we understand the budget had been determined by Main Roads WA. We have been unable to find any record of specific terms and conditions relating to the allocation. Following the initial advice of the allocation of \$525,000 and the release of the Federal budget for that year, the time frame for the funding of R2R was extended and advice was received that the Shire of Cranbrook’s allocation for that year would be two thirds of what had previously been allocated. That is two thirds of the special project grant plus two thirds of the annual R2R allocation. The remaining funds were to be paid over the remaining years of the project. All subsequent correspondence from DOTARS made no distinction between the initial allocation and the funding for the bridge. We decided to use our own staff to do the work instead of contracting the job out. This resulted in substantial savings. Early in the job we became aware that the job would come in substantially under the \$525,000 budget and we amended the budget in the February 2003 Quarterly Report. We received no feedback from DOTARS on this reduction in budget and all subsequent reports and correspondence still showed our total R2R allocation remaining the same. We assumed therefore that there were no special conditions applying to the funding other than completing the specified works and reporting the expenditure through the normal R2R reporting process. A clearly defined procedure for dealing with special project funds outlining all terms, conditions, acquittal requirements and what to do in cases of under or over expenditure, would be of great benefit. This should be attached to the letter that gives the initial advice of the allocation and also be made available on the website.

<sup>D</sup> Council advised DOTARS on 13 June 2005 that the total cost was \$220,663 with Council contributing some of its own funds. The remaining part of the R2R Special Allocation was used on other R2R projects.

Approved by Minister			R2R Quarterly Reports		Difference (\$)
LGA	Road	Allocation (\$)	Project No.	Expenditure (\$) <sup>A</sup>	
<b>Aboriginal Access Road Projects</b>					
Broome	Cape Leveque	250,000	21, 22, 23, 24	248,671 <sup>E</sup>	1,329
Derby-West Kimberley <sup>F</sup>	Calwinyardah Noonkanbah	81,000	16	53,028	27,972
East Pilbara	Talawana Track	210,000	8, 15, 23, 30	200,000	10,000
	Kunawarritji <sup>G</sup>	175,000	10, 17, 24	125,000	50,000
Halls Creek	Lake Gregory	111,000	8 & 12	110,000	1,000
Laverton <sup>H</sup>	Old Laverton (Mt Margaret)	47,000	42 & 44	46,300	700
Ngaanyatjarraku	Warburton Blackstone	210,000	11	183,880	26,120
	Warakurna	122,000	7	84,100	37,900
	Tijirrkarli <sup>I</sup>	42,000	Not reported	Nil	42,000
	Patjarr <sup>I</sup>	83,000	Not reported	Nil	83,000
Wyndham-East Kimberley	Gibb River-Kalumburu	560,000	9, 14, 22	240,000	320,000
<b>Total</b>		<b>3,260,000</b>		<b>2,353,058</b>	<b>852,942</b>
Notes (continued):					
<sup>E</sup> Council advised DOTARS on 31 May 2005 that the total cost was 'about \$271,000'. The total charged to the R2R Program (in Quarterly Reports) was \$248,671 meaning the excess was reallocated.					
<sup>F</sup> In October 2005, DOTARS advised ANAO that, although there was an underspend on this project, expenditure by this LGA on all its Aboriginal access roads was exactly the correct figure.					
<sup>G</sup> In February 2006, Council informed ANAO that the shortfall in reported expenditure on this road was a reporting error by Council, in that, while Council's R2R works schedule stated that Project No.32 related to Kiwirrkurra Aboriginal access road, this project actually involved work on Kunawarritji Aboriginal access road.					
<sup>H</sup> In January 2006, Council advised ANAO that the shortfall in reported expenditure against the project would have been consumed if plant depreciation applicable to the job had been allocated against it (at the time, Council's accounting system did not have this capability).					
<sup>I</sup> As outlined in Case Study 5.3, work has been undertaken on these two roads using Council funds.					

Source: ANAO analysis of DOTARS data.

### *Inequities resulting from reallocation of funds*

**5.42** In December 2004, when approving one LGA's request to reallocate funds, the Minister for Local Government, Territories and Roads stated as follows:

It would not normally be appropriate for a Council allocated special funding for a bridge project to cancel the bridge works and use the funding originally intended for the bridge on another project. However, as the decision to reduce the scope of the bridge project was a decision by Main Roads (WA) and was not a decision by Council, I am prepared to agree to your request (to reallocated funds).

**5.43** In this context, ANAO notes that reallocation of funds from a Special Project to other road works projects within the same LGA is, in principle, inequitable as it means that the particular LGA has received a greater share of R2R funds than it would otherwise have received had the Special Project allocation not existed. Such inconsistencies were not addressed by DOTARS in its advice to Ministers on reallocation requests.

**5.44** DOTARS' analysis and advice also did not examine the effect that reallocations from bridgeworks to other road works has on the original intention that \$8.4 million be invested in improving the condition of the State's bridges. In this respect ANAO notes that the *2005 Western Australian Infrastructure Report Card* published by Engineers Australia states as follows:

A significant amount of work is required to address the many aging timber bridges in the southwest of the State. This is recognised, but will take some time to complete. Condition improvements such as pile potting and concrete decking are necessary and there is an ongoing improvement program replacing timber bridges with more modern structures. Approximately 42 per cent of bridges (excluding CALM, Water Corporation or rail structures) are identified for maintenance and refurbishment work to be carried out on the current five year program.

**5.45** In relation to Aboriginal access road projects, in October 2005, DOTARS advised ANAO that all funding provided for Aboriginal access roads had been spent on such roads. ANAO notes that it is correct that the available evidence indicates that unapproved reallocations relating to Aboriginal access roads appear to have involved using the funds on other Aboriginal access roads. Nevertheless, the roads that received a Special Project were selected through a process that involved the relevant Commonwealth and State Ministers, the WALGGC and the Aboriginal Roads Committee. The unapproved reallocations did not go through such a process. In this context, Case Study No.5.3 provides details of an LGA where unapproved reallocations were made in relation to four projects.

**5.46** Similarly, in regards to funding of works on the Calwynyardah Nookanbah Road, the Shire of Derby-West Kimberley advised ANAO in February 2006 that:

As stated in the Quarterly Report, due to urgent road works requirements on another Aboriginal Access Road (Camballin Road) \$21,138 was reallocated by Council to this road. The remaining \$6,834 was reallocated to Aboriginal Access Roads requiring works as per the expenditure within the Quarterly report of the time. Council apologises for the fact that at the time Ministerial approval was not undertaken for the change in granted fund allocations for Aboriginal Access Roads. For the information of the report, the funding allocation to Aboriginal access roads within this Shire utilising Roads to Recovery funds exceeds the allocation prescribed of \$239,000.



## Case Study No.5.3: Unapproved Reallocations by the Shire of Ngaanyatjarraku, Western Australia

The remote Shire of Ngaanyatjarraku covers 159,948 square kilometres in the central East of Western Australia. It is bounded the Shires of Laverton, Wiluna and East Pilbara with the Northern Territory and South Australia as the eastern boundary. The Shire of Ngaanyatjarraku was allocated \$672,000 for 10 Aboriginal access road Special Projects.

On 9 May 2005 DOTARS wrote to Council drawing attention to the fact that Council's works schedule did not account for some of the approved Aboriginal access road Special Projects. DOTARS advised Council that 'this is a serious issue as Council cannot deviate from the approved roads without permission from the Minister for Transport and Regional Services'. DOTARS sought a written explanation for the discrepancies. In response, on 11 May 2005, Council advised DOTARS as follows:

Following our review of the Aboriginal access road projects, Council regrettably acknowledges that, due to an administrative oversight, two of the core tied projects, the Tjirrkarli access road (allocation \$42,000) and Patjarr access road (allocation \$83,000), have not been carried out to this date in accordance with the amended schedule as produced by the Department. Substantial capital improvement works have been undertaken on both of these roads from 2001 to the present time utilising funds from Council's financial assistance grant and other sources, however the Roads to Recovery allocations were not accessed for these projects. Instead, they were mistakenly treated as 'discretionary funds' and allocated towards other completed projects as listed in the works schedules without first seeking the necessary Departmental approvals. Council acknowledges this constitutes a significant breach of the conditions of grant.

The review has also identified levels of under-expenditure on 2 projects against the approved/amended totals [being Warburton-Blackstone Road and Warakurna Access Road, see Table 5.7]. The variances between the amended totals and actual expenditure as reported to the Department resulted from savings on the original estimated job costs; Council acknowledges that the balance of the funds for these projects should either have been utilised on another priority area of the respective roads, or alternatively Departmental approval sought to reallocate the tied funds to a new project. This was not the case, and Council sincerely regrets this error.

Subsequently, on 23 May 2005 DOTARS asked Council to amend its R2R reporting to:

- transfer amounts from other R2R project expenditure to the Tjirrkarli Access Road and Patjarr Access Road, on the basis that Council had already spent more of its own funds on these roads than it had been required to spend under R2R; and
- vary expenditure on Great Central Road R2R projects to make up for the shortfall of expenditure on the Warburton Blackstone Road and the Warakurna Access Road. DOTARS stated that the works on these two roads needed to be started and completed within a reasonable timeframe.

In December 2005, DOTARS commented to ANAO that:

the Shire of Ngaanyatjarraku requested the reallocation of funds to repair flood damage. The council priorities changed. To require them to undertake the projects initially approved in the light of these changed circumstances would have been counterproductive.

Source: ANAO analysis of DOTARS and Council data and related correspondence.

**5.47** The inequity involved in reallocating Special Project funds to general road works becomes particularly germane where other LGAs Special Project allocation proved insufficient to complete the relevant works. These LGAs funded completion of the Special Project works either from their own funds or used some of their untied R2R funds.

## Cost accountability

**5.48** Of the 64 approved Special Projects, seven were examined by ANAO during audit site visits. Of these visits, five<sup>167</sup> were advised to the relevant LGA in advance with ANAO seeking supporting financial records for the costs charged to each of these projects (similar to the approach taken to all projects sampled as part of this performance audit). The remaining two projects<sup>168</sup> involved unannounced visits by ANAO.

**5.49** LGAs were able to substantiate the costs charged to three of the five Special Projects for which supporting financial records were sought by ANAO. However, the Shire of Augusta-Margaret River was unable to substantiate the costs charged in relation to two of its three Special Projects, as follows:

- a total of \$50,000 was paid to Council to replace the Rowe Road Bridge with culverts but the Shire of Augusta-Margaret River was unable to provide ANAO with any financial records to substantiate the figure of \$50,000 reported in each Quarterly Report since February 2002 as expenditure to date; and
- a total of \$96,000 was paid to Council to repair the substructure and rehabilitate the bridge on Warner Glen Road but, at the time of preparing this Audit Report, \$60,527 has not been substantiated. Case Study No.5.4 provides relevant details.

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<sup>167</sup> Comprising two projects for the City of Kalgoorlie Boulder (both in relation to the Trans Access Road), two projects for the Shire of Augusta-Margaret River (one in relation to the Rowe River Bridge and the other in relation to the Warner Glen Road Bridge) and one project for the Shire of Beverley (relating to Butchers Road Bridge).

<sup>168</sup> Both related to the City of Swan, one being for Middle Swan Road Bridge and the other for Military Road Bridge.

## Case Study No.5.4: Warner Glen Road Bridge, Shire of Augusta-Margaret River, Western Australia

In addition to its base untied R2R allocation of \$1,741,868, the Shire of Augusta-Margaret River received an allocation of \$216,000 for work on three WA Bridge Special Projects. This included \$96,000 to repair the substructure and rehabilitate the bridge on Warner Glen Road (see the following photograph). All three projects were to be undertaken during 2001–02 with DOTARS making a payment of the full amount of \$216,000 to Council on 18 April 2002.



At the time of ANAO's audit work, the Shire of Augusta-Margaret River's current works schedule stated that work on this project had been undertaken in 2001–02. In addition, Council reported in its 2001–02 R2R Annual Report that it had repaired the substructure and rehabilitated Warner Glen Road Bridge. However, ANAO found that works were not actually completed until 2004–05. This means that both the works schedule and the 2001–02 R2R Annual Report inaccurately reported when work was completed on Warner Glen Road Bridge.

In terms of project costs, in its final R2R Quarterly Report (May 2005), the Shire of Augusta-Margaret River stated that it had spent the full amount of \$96,000 by 30 April 2005. However, ANAO's analysis of the project specific financial information provided by Council revealed that, of the \$96,000 reported expenditure against the project in the Quarterly Report, only \$35,473 could be substantiated. Of the remainder, ANAO found that:

- there was no documentation to support the claim that \$4,000 had been spent in 2001–02; and
- the balance of \$56,527 was not paid until 2005–06.

In relation to this latter amount of \$56,527, Minutes of the Council meeting of 29 June 2005 (which are publicly available) revealed to ANAO that the \$56,527 was consolidated into municipal funds. Specifically, the Minutes state that:

The unspent portion of the funding was not carried forward as restricted money. This effectively means that the funding related to this project was declared as surplus funds at the end of the 2001/02 financial year. As the work was undertaken during this financial year, Council must now pay for these works from the municipal account and incur over budget expenditure because no budget provision was made for these already funded works.

On 7 September 2005, Council advised ANAO that the \$56,527 has now been paid to Main Roads WA and that supporting financial records for this payment would be provided to ANAO but this material had not been provided at the time of preparing this Audit Report.

Source: ANAO site visit and analysis of DOTARS and Council data and related correspondence.

**5.50** In addition to those instances where R2R Quarterly Reports reveal that the full amount of the allocated funds were not spent on the relevant Special Project, there were three Special Projects where ANAO was unable to confirm whether or not the allocated funds had been fully spent. This was a consequence of the fact that relevant LGAs were not required to submit R2R Quarterly Reports after they had received their final payment of R2R funds. Accordingly, there is no report of the final cost of individual projects. Table 5.8 outlines the relevant LGAs and projects.

**Table 5.8**

**WA Special Projects where final costs are not known**

LGA	Project	Funds Allocated (\$)	R2R Quarterly Reports		Amount not spent (\$)
			Project No.	Cost (\$) <sup>A</sup>	
Albany	Lower Denmark Rd	177,000	6	Nil	177,000
Canning	Fern Road	715,000	17	465,000	250,000
Boyup Brook	McAlinden Road	213,000	21	Nil	213,000
Notes:					
<sup>A</sup> Cost is expenditure to date and does not include any forecast expenditure.					

Source: ANAO analysis of Quarterly Reports

**5.51** It needs to be recognised that, in each instance included in Table 5.8, the final Quarterly Report submitted by the relevant LGA included forecast expenditure for the full amount of the Special Project allocation. In October 2005, DOTARS advised ANAO that it was aware of this issue and had sought advice from each LGA where there was a question in relation to its final expenditure. The only response received by December 2005 was from the City of Albany which advised DOTARS on 4 October 2005 that the project was incomplete and that:

Tenders received by Main Roads WA, which is to manage the project, are considerably higher than originally expected. The estimated cost is now \$390,000. Main Roads WA proposal is to fund the additional expenditure in 2006/07. The Roads to Recovery contribution of \$177,000 held by the City of Albany, will not however be expended until late in the 2005/06 financial year.

**5.52** Similarly, Canning City Council received its final R2R payment in November 2004 but did not complete the works on its Special Project until late May 2005.<sup>169</sup> In this respect, in February 2006, Canning City Council advised ANAO that:

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<sup>169</sup> The City of Canning advised ANAO that the total cost of the project was \$1,123,329 with the R2R Special Allocation being \$715,000.

On 14 November 2004, the City submitted a claim for \$686,073 through the normal website as we have previously done, all previous quarters. The City received a payment of \$1,285,637 which was the remaining amount to be claimed for the life of the Program which totalled \$2,813,011. The City advised DOTARS of the payment in March 2005 via email and did not receive a response. The City did not pursue this matter further as all of our funded projects were almost complete.

...We did not request a final payment (by filling in a quarterly report) because we received our final payment when we did not ask for it. As all of our monies were claimed we no longer had to fill in quarterly reports.

**5.53** Similarly, in January 2006, the Shire of Boyup Brook (which received its final payment in December 2004) advised ANAO that:

The R2R Special Projects for WA funded bridgeworks to Bridge No 3307 on McAlinden Road, Boyup Brook was contracted by Main Roads WA. The bridgeworks were completed between November 2004 and January 2005. Main Roads WA invoiced the Shire of Boyup Brook for the contract amount of \$213,000 on 19 May 2005 which was paid in June 2005. The Shire of Boyup Brook has no record of correspondence received from DOTARS in 2005 relating to final expenditure of R2R Special Project Funds.<sup>170</sup>

**5.54** Issues concerning cash management, such as the extended delay between funds being paid by DOTARS to LGAs and subsequent expenditure by LGA's, are discussed in Chapter 4: Financial Management.

## **Changes made for Auslink Roads to Recovery**

**5.55** The findings of this performance audit demonstrate that, for Auslink Roads to Recovery, improvements are required both to the governance framework applying to WA Special Projects as well as to DOTARS' internal procedures and processes. This latter aspect is addressed by Recommendation No.10 below. In relation to the former, DOTARS has already made a number of changes to the Auslink Roads to Recovery governance framework, as outlined below.

### *Addressing the risks realised in R2R*

**5.56** The Auslink Roads to Recovery Funding Conditions explicitly address the risk of special project allocation funds not being used for approved projects as well as unapproved reallocation of unspent funds. Specifically:

- clause 1.2 requires that funding recipients ensure that amounts that the Australian Government has specified be spent on a particular project be spent only on the particular project; and

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<sup>170</sup> The City of Canning advised ANAO in February 2006 that it had also received no correspondence from DOTARS on the issue of the final cost of the Special Project for the bridge on Fern Road.

- clause 1.3 requires that that funding recipients obtain DOTARS approval before any unspent amounts provided for a particular project be used on another roads project.

**5.57** Clause 1.2 of the Auslink Roads to Recovery Conditions is particularly important. This is because, in response to the Glebe Street Bridge issue (see Case Study No.5.2), DOTARS obtained legal advice that concluded there was no basis in the R2R Act or the Conditions or the Guidelines that would enable DOTARS to recover the \$432,500 that should have been spent on this bridge project. Specifically, the advice was that:

The conditions are perhaps a little deficient insofar as they identify the circumstances in which a funding recipient is liable to repay funding as limited to circumstances where the funds are not expended in accordance with the Act and the Conditions.

...There is nothing in the Act which provides that funding recipients must spend amounts which they receive under the Act as agreed by the Minister, or on projects agreed by/determined by the Minister. Nor is there anything to that effect in the Conditions.

**5.58** In addition to the general requirements for specific projects included in the Auslink Roads to Recovery Conditions, the Auslink Roads to Recovery Notes on Administration include a specific clause (clause 5.3) relating to WA bridges and Aboriginal access roads. This clause reiterates the requirement in the Funding Conditions that LGAs must seek the agreement of DOTARS before using the surplus funds for other projects. It also states that 'special arrangements apply to these projects and these will be advised by letter to the councils involved.'

**5.59** In addition to changed governance documentation, in December 2005 DOTARS advised ANAO of changes made to its administrative procedures, as follows.

The Special Project allocations made to councils in WA were based on estimates developed by the WA Main Roads Department in conjunction with councils. In spite of the Department's expertise, actual costs will usually differ from estimates and the case studies you have quoted are very good examples of why this can occur. We agree that a process is necessary to handle these variations and the intelligent use of funds from underspends needs to be considered on a case by case basis.

In the event that specially funded projects come in under cost, we will seek a list of further potential projects from the WA Local Government Grants Commission, which prepared the original list of projects on behalf of the State Government. However, where a council has a number of projects, some of which have cost over-runs, the council should, with the agreement of the Department, be able to balance the over expenditure against the under expenditure.

It is true that councils which received special projects funding that was subsequently used for other projects obtained an unintended windfall. Requests for project variations will also be considered on a case by case basis under the current Program.

### *Accountability*

**5.60** The Auslink Roads to Recovery Funding Conditions also address accountability in situations where a funding recipient receives, spends or retains any Auslink Roads to Recovery payment which the Australian Government has specified is to be spent, in whole or part, on a particular project. Specifically, clause 5.3 of the Funding Conditions requires an additional Annual Report to be provided by 31 October. The Annual Report is required to be accompanied by a written audit report.

**5.61** DOTARS advised ANAO in December 2005 that, clause 5.3, along with the quality assurance processes being applied and the planned reconciliation of Quarterly Report and Annual Report content, provide the governance to ensure that funds are expended and reported appropriately.

## **Recommendation No.10**

**5.62** ANAO *recommends* that DOTARS enhance accountability and address risks relating to Local Government Authorities not undertaking Auslink Roads to Recovery Special Projects, or using the funds on other works, by:

- (a) requiring Local Government Authorities that receive funds for Special Projects to clearly identify in their works schedules and Quarterly Reports that the project is being funded by a tied grant so as to discriminate these projects from those chosen by LGAs using their untied funds;
- (b) analysing works schedules, Roads to Recovery Quarterly Reports and Annual Reports to identify any Local Government Authorities that have not undertaken, or do not propose to undertake, one or more Special Projects approved by the Australian Government;
- (c) reducing the total Auslink Roads to Recovery payments made to relevant Local Government Authorities by the amount of any approved Special Project where the relevant Local Government Authority has not undertaken, or does not propose to undertake, one or more Special Projects;
- (d) requiring transparent accounting for Special Project funds that are paid to Local Government Authorities including, as appropriate, holding these amounts separate to other funds; and
- (e) when assessing any future requests from Local Government Authorities to reallocate unspent Special Project funds to other works,

identifying any other Local Government Authorities that have insufficient funds available to complete their Special Projects and giving consideration to the merits of surplus Special Project funds being reallocated to complete work on other Special Projects.

*DOTARS response*

**5.63** DOTARS agreed to parts (a), (b), (c) and (e) of the recommendation and agreed with qualification to part (d). DOTARS commented that:

No.10(a): Agree. There are no current special projects and it is not anticipated that there will be any funded until the May 2006 payment at the earliest. The Department has a process of checking the adequacy of all project descriptions as quarterly reports are lodged and this will include checking that special projects are clearly identified. The requirement to identify special projects already exists in clause 5.3 of the Notes on Administration; clause 4(d) of the funding conditions will also be amended to require it.

No.10(b): Agree. Processes for this are in place as described in the response to recommendation No.5(a).

No.10(c): Agree. This will be handled administratively. The payment process (clause 4.10 of the funding conditions and clause 6.11 of the Notes on Administration) is designed to ensure that funds are not provided for work not done.

No.10(d): Agree in part. The funds need to be clearly identified but do not need to be held separately. Responsibility lies with councils but the Department will address this issue as part of the financial audits to commence in 2006–07.

No.10(e): Agree. Consideration will be given to the use of unspent special projects funds in this way. The expenditure reporting processes in place will identify where special projects are underspent or overspent and the merits of using underspends from one project to cover overspends from another will be considered.

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Ian McPhee  
Auditor-General

Canberra ACT  
1 March 2006



# Appendices



## Appendix 1: Representative sample of 93 LGAs

LGA	Category	Total Allocation (\$)	Number of Projects Examined by ANAO
<b>New South Wales</b>			
Albury	URM	1,860,824	6
Coolamon	RAM	2,059,082	1
Corowa	RAL	2,127,466	1
Gilgandra	RAM	2,106,184	5
Goulburn - Mulwaree	RAL	1,723,166	8
Griffith	URS	2,547,851	13
Gundagai	RAM	1,263,002	6
Gunnedah	RAV	2,528,266	4
Hornsby	UFV	2,601,650	2
Lithgow	URS	1,616,965	1
Lockhart	RAM	2,520,703	7
Maitland	URM	1,813,179	5
Manly	UDM	535,016	4
Newcastle	URV	2,996,619	8
Port Stephens	URM	1,819,554	8
Queanbeyan	URS	1,064,986	3
Strathfield	UDS	451,517	1
Sydney	UCC	782,741	3
Tumut	RAV	1,289,041	6
Warringham	UDV	2,227,005	3
<b>Subtotal for State</b>		<b>35,934,817</b>	<b>95</b>
<b>Victoria</b>			
Ballarat	URL	4,911,041	8
Brimbank	UDV	3,117,184	2
Greater Bendigo	URL	7,051,953	3
Hobson Bay	UDL	1,846,824	2
Hume	UFV	3,089,928	1
Macedon Ranges	URM	4,025,034	5
Melbourne	UCC	997,291	2
Melton	UFM	1,649,210	4
Monash	UDV	2,835,452	7
Moorabool	URS	3,279,645	2
Murrindindi	RAV	2,437,149	3
Strathbogie	RAL	3,081,008	6
<b>Subtotal for State</b>		<b>38,321,719</b>	<b>45</b>

LGA	Category	Total Allocation (\$)	Number of Projects Examined by ANAO
<b>Queensland</b>			
Aramac	RTS	1,258,167	4
Banana	RAV	3,951,642	4
Bauhinia	RAM	1,646,132	2
Blackall	RTM	1,261,165	3
Booringa	RAS	2,354,660	3
Brisbane	UCC	28,634,338	3
Burnett	UFS	1,999,492	3
Chinchilla	RAL	2,956,769	3
Gladstone	URS	955,295	3
Isisford	RTX	1,003,935	5
Jericho	RTS	1,316,981	6
Longreach	RTL	1,879,235	2
Maroochy	URV	4,629,805	10
Miriam Vale	RAM	999,646	2
Murweh	RTL	2,940,426	12
Pine Rivers	UFL	4,188,969	4
Redland	UFL	3,933,511	4
Stanthorpe	RAL	1,498,517	2
Tambo	RTS	787,018	3
Wambo	RAL	2,040,941	2
Warwick	URS	3,072,260	6
<b>Subtotal for State</b>		<b>73,308,904</b>	<b>86</b>
<b>Western Australia</b>			
Augusta-Margaret River	RSG	1,741,868	8
Belmont	UDS	925,786	4
Beverley	RAS	1,226,059	6
Bunbury	URS	1,503,982	6
Corrigin	RAS	1,243,852	3
Denmark	RAM	949,330	4
Dundas	RTM	574,394	1
Jerramungup	RAS	1,023,606	3
Kalgoorlie-Boulder	URM	2,600,874	7
Lake Grace	RAS	2,017,784	6
Ravensthorpe	RAS	1,167,790	4
Rockingham	UFM	2,275,043	4
Serpentine-Jarrahdale	RSG	1,485,612	4
South Perth	UDM	755,327	5
Swan	UFL	4,395,905	10
York	RAM	1,477,038	6
<b>Subtotal for State</b>		<b>25,364,250</b>	<b>81</b>

LGA	Category	Total Allocation (\$)	Number of Projects Examined by ANAO
<b>South Australia</b>			
Copper Coast	RAV	735,906	1
Flinders Rangers	RAS	845,227	2
Mount Remarkable	RAM	985,079	2
Orroroo/Carrieton	RAS	703,153	1
Salisbury	UDL	3,514,248	3
Tea Tree Gully	UDL	2,837,268	4
West Torrens	UDM	1,581,079	5
Yorke Peninsula	RAV	2,141,866	4
<b>Subtotal for State</b>		<b>13,343,826</b>	<b>22</b>
<b>Tasmania</b>			
Brighton	URS	574,993	3
Central Highlands	RAM	1,426,190	3
Devonport	URS	1,144,967	8
Glamorgan Spring Bay	RAM	819,609	15
Launceston	URM	2,999,365	7
Northern Midlands	RAV	2,434,456	6
Southern Midlands	RAL	2,371,759	6
West Tamar	UFS	1,083,321	3
<b>Subtotal for State</b>		<b>12,854,660</b>	<b>51</b>
<b>Northern Territory</b>			
Binjari	RTX	42,065	2
Cox Peninsula	RTX	87,038	5
Coomalie	RTM	571,518	2
Darwin	UCC	2,792,742	10
Jilkminggan	RTX	42,065	1
Katherine	URS	924,447	3
Mataranka	RTX	89,873	3
Pine Creek	RTS	228,314	2
<b>Subtotal for Territory</b>		<b>4,778,062</b>	<b>28</b>
<b>Total</b>		<b>203,906,238</b>	<b>408</b>

## Australian Classification of Local Government (ACLG) Categories as at 2000–01

	Category	Number of LGAs	Number included in ANAO's representative sample
UCC	Urban Capital City (UCC)	7	4
UDS	Urban Development Small (UDS)	20	2
UDM	Urban Development Medium (UDM)	25	3
UDL	Urban Development Large (UDL)	23	3
UDV	Urban Development Very Large (UDV)	20	3
UFS	Urban Fringe Small (UFS)	8	2
UFM	Urban Fringe Medium (UFM)	16	2
UFL	Urban Fringe Large (UFL)	10	3
UFV	Urban Fringe Very Large (UFV)	13	2
URS	Urban Regional Small (URS)	95	10
URM	Urban Regional Medium (URM)	35	6
URL	Urban Regional Large (URL)	9	2
URV	Urban Regional Very Large (URV)	7	2
RSG	Rural Significant Growth (RSG)	13	2
RAS	Rural Agricultural Small (RAS)	77	8
RAM	Rural Agricultural Medium (RAM)	96	11
RAL	Rural Agricultural Large (RAL)	70	7
RAV	Rural Agricultural Very Large (RAV)	63	7
RTX	Rural Remote Extra Small (RTX)	46	5
RTS	Rural Remote Small (RTS)	33	4
RTM	Rural Remote Medium (RTM)	28	3
RTL	Rural Remote Large (RTL)	12	2
	<b>Total</b>	<b>726</b>	<b>93</b>

## Appendix 2: Roads to Recovery Program Annual Report Proforma

### Roads to Recovery Programme ANNUAL REPORT PROFORMA

#### Part 1 - FINANCIAL STATEMENT

#### CEO's Report

The following Financial Statement is a true statement of the receipts and expenditure of the funds received by ...(name of LGA) ... under the *Roads to Recovery Programme* in the financial year 200x-0x

[1]	[2]	[3]	[4]	[5]
Amount brought forward from previous financial year	Amount received in report year	Total amount available for expenditure in report year	Amount expended in report year	Amount carried forward to next year
\$	\$	\$	\$	\$
		[1]+[2]		[3]-[4]

.....(signature of Chief Executive Officer)

...../...../200x

.....(name of Chief Executive Officer)

#### Auditor's report

In my opinion:

- (i) the Financial Statement above is based on, and is in agreement with, proper accounts and records; and
- (ii) the amount reported as expended during the year was used solely on roads expenditure as defined in section 3 of the *Roads to Recovery Act 2000*.

I am an auditor qualified under the relevant State or Territory legislation to audit the accounts of local government bodies.

.....(signature of auditor)

...../.. /200x

.....(name of auditor)

*Roads to Recovery Programme ANNUAL REPORT PROFORMA*

**Part 2 - STATEMENT OF ACCOUNTABILITY BY CEO**

I, .....(name)....., Chief Executive Officer of .....(name of LGA) ....., hereby certify, in accordance with the Conditions of Grant determined under section 7 of the *Roads to Recovery Act 2000*, that...(name of LGA) ... has:

- (a) expended funds received under the Act solely for roads expenditure as defined under the Act;
- (b) maintained expenditure on roads from its own sources, in the year 200x–0x at or above the average of the amounts expended on roads from these sources over the years 1998–99 to 2000–01;
- (c) complied with the Conditions and Guidelines relating to signs and publicity acknowledging Commonwealth funding under the *Roads to Recovery Programme* program; and
- (d) complied with other conditions of the grant as set out in the Conditions and Guidelines.

.....(signature of Chief Executive Officer)

.... / .... / 200x



*Roads to Recovery Programme ANNUAL REPORT PROFORMA*

**Part 3 - STATEMENT OF OUTCOMES BY CEO**

...(name of LGA) ... has achieved the following outcomes under the *Roads to Recovery Programme* in 200x-0x:

**Key outcomes**

Outcome	Estimated % of Roads to Recovery Expenditure (all projects)
1. Road Safety	
2. Regional economic development	
3. Achievement of asset maintenance strategy	
4. Improved access for heavy vehicles	
5. Promotion of tourism	
6. Improvements of school bus routes	
7. Access to remote communities	
8. Access to intermodal facilities	
9. Traffic management	
10. Improved recreational opportunities	
11. Amenity of nearby residents	
12. Equity of access (remote areas)	
13. Other	
<b>14. TOTAL</b>	<b>100.0</b>

.....(signature of Chief Executive Officer)

.... / .... / 200x

## Appendix 3: ANAO methodology for estimating the cost of R2R payments in excess of requirements

Payments are made by DOTARS to LGAs quarterly in advance, on the basis of reported actual expenditure to the end of the quarter and forecast expenditure for the next quarter. As such, in calculating the cost to the Commonwealth, ANAO relied upon the figures reported in LGA Quarterly Reports for the representative sample. However, during the course of the audit, it became evident that many Quarterly Reports contained incomplete or inaccurate data. Where more accurate data was made available to ANAO by an LGA, such figures were used in place of the Quarterly Report data. This was done in order to reflect, as closely as possible, an LGA's actual expenditure.

Where there were no Quarterly Reports submitted by an LGA for particular periods, the ANAO approach recognised a range of possible expenditure by the LGA in those periods. The minimum level of expenditure used was the expenditure last reported, and the maximum level of expenditure used was that in the next available Quarterly Report.<sup>171</sup>

Two different scenarios were applied by ANAO in calculating the cost to the Commonwealth. These were that LGAs spent the funds reported in their Quarterly Reports either: on the day that they received the funds; or on the last day of the quarter in which they received the funds. It was the subsequent amount of surplus funds that was then carried forward to the following quarter that was used in the interest calculation.

Combining this with the necessity to incorporate a range of expenditure figures as described above, the overall cost to the Commonwealth can be expressed as a range of possible figures, as seen in the following table.

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<sup>171</sup> An exception was where an LGA's R2R Annual Report Audited Financial Statement provided an expenditure figure as at 30 June of the relevant year.

		Cost to Commonwealth	
		Representative Sample of 93 LGAs (\$)	Full R2R Program (\$)
Funds spent on day payment received	Maximum expenditure	1,420,030	8,356,960
	Minimum expenditure	1,898,017	11,169,940
Funds spent on last day of quarter	Maximum expenditure	2,929,919	17,242,742
	Minimum expenditure	3,296,999	19,403,030

It needs to be emphasised that these figures are the cost to the Commonwealth using the RBA cash rate (as specified in Finance Circular 2004/14). It may be that LGAs that held R2R funds earned a lesser amount on the funds. This could occur for a number of reasons including: LGA cash management practices may not have involved investing the funds; and the interest rates achieved by LGAs could be less than the RBA cash rate.

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