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Performance Audit

Performance Audit of the Regional Partnerships Programme: Volume 1–Summary and Recommendations

Department of Transport and Regional Services

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
15 November 2007

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Transport and Regional Services in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Performance Audit of the Regional Partnerships Programme.*

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

Yours sincerely

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

ACC	Area Consultative Committee
ANAO	Australian National Audit Office
Auditor-General Act	*Auditor-General Act 1997*
DOTARS	Department of Transport and Regional Services
Finance	Department of Finance and Administration
FMA Regulations	*Financial Management and Accountability Regulations 1997*
Senate Committee	Senate Finance and Public Administration References Committee
SONA	Strategic Opportunities Notional Allocation

Glossary

Acquittal	A process by which DOTARS verifies that a funding recipient has expended Regional Partnerships funding for the purpose and in the manner specified in the Funding Agreement.
FMA Regulations	FMA Regulations are those made by the Governor-General that relate to matters necessary or convenient for carrying out or giving effect to the *Financial Management and Accountability Act 1997*. They are made on the recommendation of the Government.
Funding Agreement	A legally enforceable agreement setting out the funding terms and conditions under which a grant is provided. The Standardised Funding Agreement used for Regional Partnerships grants comes in two forms—Long Form (used for most grants) and Short Form (used for grants of $50 000 or less).
Grant	A grant is a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. In a strict legal sense, a grant is a 'gift' from the Crown, which may, or may not, be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding agreement where the recipient is selected on merit against a set of criteria.
Internal Procedures Manual	This is the manual that sets out the procedures to be applied by departmental officials in the administration of the Regional Partnerships Programme. It has been periodically revised over the course of the Programme, with the most recent version issued in July 2007 reflecting a significant re-engineering of the Programme's administration.

Ministerial Committee	Committee of three Ministers formed from 30 November 2005 to take decisions on all Regional Partnerships applications.
Partner co-funding	Financial or in-kind contributions proposed to be made by the funding applicant or other parties, other than the Regional Partnerships Programme, to the cost of a project for which Regional Partnerships funding is sought and, for successful applicants, received.
Portfolio Budget Statements	Form part of the Budget papers and function like an explanatory memorandum for a Bill before the Parliament. They explain the provisions of the Budget Bills to the Parliament.
Programme Guidelines	The Regional Partnerships Programme Guidelines have been approved by the responsible Ministers and published by DOTARS on its Regional Partnerships website. The Guidelines set out the Programme objectives; application, assessment and decision-making processes; and the eligibility and assessment criteria that are to be applied in determining successful applicants.
TRAX	Information Technology system used in the administration of the Regional Partnerships Programme.

Introduction and Audit Approach

Introduction

1. In 1999, the Government held the Regional Australia Summit, where delegates representing communities, business and government met to develop a national appreciation of the challenges facing regional Australia.[1] The Government's response to the Regional Australia Summit was the August 2001 *Stronger Regions, A Stronger Australia* Statement. This Statement outlined the Government's framework for regional development through the following decade. Key directions identified in the Statement included a partnership approach between the community and government.[2]

2. Following the release of the *Stronger Regions, A Stronger Australia* Statement, the then Minister for Transport and Regional Services commissioned an internal Regional Programmes Reform Taskforce to undertake a review of the regional programmes then administered by the Department of Transport and Regional Services (DOTARS). Based on the recommendations in the July 2002 report of the Taskforce, it was decided that existing programmes would be amalgamated into a single package that would address the *Stronger Regions, A Stronger Australia* Statement by targeting four broad priority areas of strengthening growth and opportunities, improving access to services, supporting planning and assisting structural adjustments for communities. There has been little subsequent change in the Programme objectives, which are currently expressed in the following form:

- **stimulate growth in regions** by providing more opportunities for economic and social participation;
- **improve access to services** in a cost effective and sustainable way, particularly for those communities in regional Australia with a population of less than 5 000;
- **support planning** that assists communities to identify and explore opportunities and to develop strategies that result in direct action; and

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1 Department of Transport and Regional Services, *Inquiry into the Regional Partnerships Programme and Sustainable Regions Programme—Submission by the Department of Transport and Regional Services*, 28 January 2005, p. 3.

2 ibid.

- **help communities make structural adjustments** in regions affected by major economic, social or environmental change.[3]

3. The Regional Partnerships Programme commenced on 1 July 2003. It brought together a number of previously separate regional funding programmes, namely Regional Solutions, Regional Assistance, Rural Transaction Centres, Dairy Regional Assistance and the structural adjustment programmes for the Wide-Bay Burnett (QLD), Naomi Valley (NSW), Weipa (QLD) and the South West Forests (WA) regions.

4. In jointly announcing the new Programme, the then Minister for Transport and Regional Services and the then Minister for Regional Services, Territories and Local Government stated:

> Regional Partnerships integrates all of the Government's key regional funding programmes, except Sustainable Regions, into one simple programme…
>
> …Under Regional Partnerships there is one set of guidelines and one simple application process to make it as easy as possible to apply for Federal Government funding support.[4]

5. Between 2003–04 and 2006–07, total funding of $409.7 million was allocated through administered annual appropriations to the Regional Partnerships Programme for expenditure on grants and payments to the network of Area Consultative Committees (ACCs). In that period, total actual expenditure was $327.9 million. The 2007–08 Budget included an allocation of $89.8 million for 2007–08 comprising $72.4 million for grants and $17.4 million for payments to ACCs.[5]

6. Between 1 July 2003 and 30 June 2006, funding was considered by Ministers[6] in relation to 1 413 projects.[7] The largest component of these

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[3] Department of Transport and Regional Services, *Regional Partnerships Guidelines*, July 2007.

[4] Joint Media Release, The Hon John Anderson MP, Deputy Prime Minister, Minister for Transport and Regional Services and The Hon Wilson Tuckey MP, Minister for Regional Services, Territories and Local Government, *A New Regional Partnership*, 26 June 2003.

[5] Prior to 2006–07, administered expenses reported in Portfolio Budget Statements and Portfolio Additional Estimates Statements for the Regional Partnerships Programme included expenses relating to ACCs. In the 2006–07 Portfolio Budget Statements, administered expenses relating to ACCs were separately reported ($16.9 million for 2006–07). The same approach was taken in 2007–08.

[6] Where more than one Minister is appointed to administer a Department of State, each Minister has the power to independently administer the department and its legislation. Arrangements for the allocation of responsibilities between the Ministers are made at the political level. Since the March 2000 amendment of the *Ministers of State Act 1952* and the repeal of the *Parliamentary Secretaries Act 1980*, Parliamentary Secretaries have been appointed in the same way as Ministers and are required to be appointed as Federal Executive Councillors, under section 64 of the Constitution. This enables them to act for or on behalf of a Minister including in the exercise of statutory functions. In this report, the term Ministers encapsulates both Ministers of State and Parliamentary Secretaries.

funding decisions related to 1 370 individual projects that were either approved for full or partial funding (981 or 72 per cent) or not approved for funding (389 or 28 per cent).[8] In addition, there were two instances where a decision was made to contribute Programme funds to a project or projects administered through another department. There had also been funding decisions taken in respect to 34 projects relating to commitments made during the 2004 election campaign that the Government subsequently allocated for administration through the Regional Partnerships Programme.[9]

Programme administrative arrangements

7. The Regional Partnerships Programme is a non-statutory discretionary grants programme administered by DOTARS. Key features of the Programme administrative arrangements are that:

- a network of local ACCs[10] is able to assist applicants in the development of funding applications. ACCs also usually provide comments and recommendations to the responsible Minister on whether projects submitted to DOTARS by applicants in their area should be supported for funding, based on the ACC's assessment of the project's consistency with its Strategic Regional Plan and the Programme assessment criteria;
- grant applications and approvals are made on a continuous basis, rather than through structured funding 'rounds'[11];
- applicants and their other project partners (if any) are expected to make a financial contribution to the cost of the project;

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7 This relates to the primary decision as to whether a particular project would be funded or not and excludes decisions subsequently taken in relation to variations to approved funding or other aspects of an approved project. In the period examined by ANAO, such variations also required Ministerial approval.

8 There were a further seven applications that were placed 'on hold' by the Ministerial decision-maker. Although those projects were not funded, a formal Ministerial decision to not fund the project, or a formal withdrawal by the applicant, was not recorded.

9 There were a further two projects that related to commitments made during the 2004 election campaign in respect of which no Regional Partnerships funding decision had been made as at 30 June 2006.

10 At the time of ANAO fieldwork, there were 56 ACCs. Following a review of ACC boundaries, from 1 July 2007, this was to transition to 54 ACCs, with the five Melbourne-based ACCs being merged into three.

11 This report has been prepared on the basis of the administrative arrangements that existed in relation to the Regional Partnerships Programme until September 2007. On 12 September 2007, the Minister for Transport and Regional Services announced changes to the Programme including the introduction of structured funding rounds for the consideration of all applications from private enterprise applicants. This process had yet to commence when this audit report was in preparation but, based on application activity in the first three years of the Programme, is likely to affect some 12 per cent of applications with the remaining 88 per cent of applications continuing to be assessed individually, on a continuous basis.

- DOTARS assesses applications against the assessment criteria set out in the published Programme Guidelines approved by the responsible Ministers (primarily relating to project outcomes, partnerships and support, applicant viability and project viability[12]) and makes funding recommendations to the Ministerial decision-maker(s); and
- Ministers decide which applications will receive funding.

8. In November 2005, the then Minister for Transport and Regional Services announced some changes to the delivery arrangements for Regional Partnerships funding. The announced changes involved:

- the formation of a Committee of three Ministers to make decisions about whether or not to approve funding for each application, rather than the previous approach of a single Ministerial decision-maker for each application.[13] Ministers were also to retain their role in developing and approving Programme Guidelines and administrative arrangements;
- the introduction of a single assessment of applications conducted by DOTARS' National Office in Canberra, with a funding recommendation then provided to the Ministerial Committee. Previously, Regional Offices were primarily responsible for assessing applications, with National Office performing a quality assurance role and providing the project assessment and funding recommendation to the Ministerial decision-maker(s). Regional Offices remain responsible for administering Funding Agreements; and
- changes to strengthen and develop the role of the ACCs.[14]

9. In terms of application assessments, the move (commencing in mid-March 2006) to a single assessment of applications conducted within DOTARS'

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[12] The Programme Guidelines that applied for the first three years of the Programme, the period examined by ANAO, stipulated that priority would be given to those projects that demonstrated value for money, which would be determined taking into account the total request for Regional Partnerships funding and the extent to which the project met those assessment criteria.

[13] At various times, such decisions had been made by the then Minister for Regional Services, Territories and Local Government, the then Minister for Local Government, Territories and Roads, the then Parliamentary Secretary to the Minister for Transport and Regional Services or the then Minister for Transport and Regional Services.

[14] It was announced that: changes would be made to the ACC funding arrangements; the Government would appoint the chair and deputy chair of each ACC; each year the Minister for Transport and Regional Services would provide ACCs with written advice and guidelines on the Government's broad policy priorities for the Programme; and the relevant ACC chair would be required to provide a statement identifying any competitive neutrality issues for projects where assistance greater than $25 000 was sought for a business or commercial venture.

National Office was intended to streamline assessments so that problems with applications could be identified more quickly, there would be greater consistency in the funding recommendations provided to Ministers and funding decisions could be made sooner.

10. In respect to the approval of funding for projects, both at the time of establishing the Programme and subsequently, the responsible Ministers have explicitly declined to authorise DOTARS officials to approve or not approve any Regional Partnerships grant applications. Accordingly, the final decision on whether an application will receive funding, how much funding will be provided, the purpose for which it can be used and the basis on which this will occur, has been taken by Ministers. As noted, prior to 30 November 2005, this role was undertaken in respect of each application by an individual Minister or Parliamentary Secretary within the Transport and Regional Services portfolio. Since 30 November 2005, the Ministerial Committee has performed this role. At the time of audit, the members of the Ministerial Committee were the Minister for Transport and Regional Services, the Minister for Local Government, Territories and Roads, and the Hon Gary Nairn MP.[15]

11. On 28 May 2007, the Minister for Transport and Regional Services announced, in a speech to the 2007 Area Consultative Committees Conference, that:

> In response to delays being experienced where variations to approved projects have been required, the Ministerial Committee has delegated the responsibility for approving minor variations for approved projects to the department, provided that the total funding does not exceed the amount approved, that all funding conditions are met, and that partnerships remain within programme guideline limits.
>
> …However, the ultimate responsibility for the Regional Partnerships programme will always lie with the Ministerial Committee to ensure that Australian Government funds are directed to projects, large and small, that are genuinely needed and will make a difference.[16]

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[15] Mr Nairn was appointed to the Committee as a nominee of the Prime Minister. At the time of his appointment, Mr Nairn was the Parliamentary Secretary to the Prime Minister, responsible for the administration of relevant matters within the Prime Minister and Cabinet portfolio. On 27 January 2006, Mr Nairn became the Special Minister of State, responsible for the administration of relevant matters within the Finance and Administration portfolio, but continued as a member of the Regional Partnerships Ministerial Committee.

[16] The Hon Mark Vaile MP, Minister for Transport and Regional Services, *2007 Area Consultative Committees Conference*, Canberra, VS09/2007, 28 May 2007.

12. In July 2006, revised Regional Partnerships Programme Guidelines were finalised and issued. The revised Programme Guidelines included significantly expanded guidance to potential applicants in respect to a number of aspects of the Programme and its administration, including regarding the assessment process and criteria. However, the revised Programme Guidelines did not alter the essential criteria taken into account in the departmental assessment of an application.[17] An updated version of the expanded Guidelines was issued in July 2007.

13. As of April 2007, DOTARS' administration of the Programme had operated under five versions of an Internal Procedures Manual. In May and June 2007, DOTARS provided the Australian National Audit Office (ANAO) with a revised Internal Procedures Manual that came into effect from July 2007. The revised Manual replaced the September 2005 version, which had remained the extant Manual, notwithstanding the Programme changes announced by the Government in November 2005.

14. ANAO's examination of the Regional Partnerships Programme encompassed all Ministerial funding decisions taken over the first three years of the Programme, ending 30 June 2006, including the first seven months of operation of the Ministerial Committee. The assessment, approval and management processes applied in respect of all applications examined in this audit were considered against the versions of the Programme Guidelines and Internal Procedures Manual that were applicable at the relevant time. The audit also analysed changes in administrative procedures and practices throughout the life of the Programme, including the period since the Committee was formed and the period up to the completion of the audit in the latter part of 2007 during which DOTARS had undertaken extensive staff training and developed the substantially revised Internal Procedures Manual. Table 1 sets out the range of improvement initiatives undertaken in the course of the audit in response to audit findings.

[17] In this respect, the revised Programme Guidelines made it explicit that two aspects previously addressed through the eligibility criteria (competitive advantage and cost shifting) would now be considered as assessment criteria.

Table 1

Significant improvement initiatives undertaken in the course of the audit

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

Source: ANAO analysis of DOTARS' documentation and advice.

Audit approach

15. In October 2005, the then Senate Finance and Public Administration References Committee[18] tabled the report of its inquiry into the Regional Partnerships and Sustainable Regions Programmes. One of the recommendations included in the Senate Committee's report was that the ANAO undertake a performance audit of the two programmes. To allow for a more focused approach, ANAO decided to first undertake a performance audit of the Regional Partnerships Programme. An audit of the Sustainable Regions Programme is to be considered following completion of the audit of the Regional Partnerships Programme.

16. The audit objective was to assess whether the Regional Partnerships Programme has been effectively managed by DOTARS, including the processes by which:

- applications are sought, received and assessed;
- Funding Agreements with grant recipients are developed and managed; and
- the achievement of project and programme outcomes is monitored and assessed.

17. The audit scope included examination of departmental records relating to all Ministerial funding decisions made between 1 July 2003 and 30 June 2006. It also included the assessment, approval and management processes applied to 278 successful and unsuccessful applications made by applicants located in a representative sample of 11 ACCs (representing 20 per cent of ACCs).[19] The audit sample included approximately 20 per cent of projects approved for funding during the three years examined. The audit methodology involved examining records held by both DOTARS and the ACCs; inspecting a selection of projects funded under the Regional Partnerships Programme; and consulting with organisations and individuals that applied for grants. Recently developed training materials prepared for departmental staff and the revised Internal Procedures Manual that came into effect from July 2007 were also considered.

[18] Hereafter referred to as the Senate Committee.

[19] The 11 ACCs in the audit sample were selected at random. They are: Southern Inland Queensland; Central Murray; Central Highlands; Kimberley; Melbourne's West; Illawarra; Mid West Gascoyne; Limestone Coast; Central Queensland; Adelaide Metropolitan; and Peel.

18. Between April 2006 and September 2007, 21 audit Issues Papers were provided to DOTARS. The purpose of the Issues Papers was to confirm the accuracy and completeness of the information and audit analysis included in them and to obtain departmental views on conclusions reached, as an input to the preparation of the proposed audit report to be issued under Section 19 of the *Auditor-General Act 1997* (Auditor-General Act). An advance version of the proposed audit report was provided to DOTARS in September 2007 in order to afford the department a further opportunity to comment prior to issuing the formal proposed report.

19. The formal proposed report was issued in October 2007 to DOTARS and to the Ministers who have, or have had, responsibilities under the Programme. Consistent with the requirements of the Auditor-General Act, DOTARS and Ministers were provided with a period of 28 days in which to provide any comments on the proposed report. In addition, for natural justice reasons, relevant funding recipients (including each of those that are the subject of a published ANAO case study) named in the main report or included in project case studies were provided with relevant extracts, as was the Department of Finance and Administration (Finance) in relation to aspects of the audit report that related to the Commonwealth's financial framework.

20. A response was received by the due date from DOTARS, Finance, one former Minister and various funding recipients. These comments were considered in preparing the final report of this audit, including through appropriate incorporation into the relevant areas of the report. The Auditor-General Act requires the final report to be tabled as soon as practicable after it has been prepared.

21. This audit report is in three volumes. Volume one contains the report summary and the audit recommendations. This volume includes the overall audit conclusions together with audit conclusions and key findings in relation to the Programme's application assessment and approval processes, and each of the three primary areas identified in the Programme Guidelines as being the basis for assessing the value for money provided by each application (partnerships and support, project and applicant viability, and outcomes).

22. The audit conclusions, key findings and recommendations contained in volume one are supported by:

- volume two, which contains five parts comprising:

- background information on the Programme, together with the audit approach (part one of the volume);
- an examination of the Programme's application assessment and approval processes (part two of the volume); and
- analysis of the three primary areas identified in the Programme Guidelines as being the basis for assessing the value for money provided by each application (partnerships and support, project and applicant viability, and outcomes—parts three, four and five of the volume); and

- volume three, which comprises 12 case studies of projects included in the audit sample, together with two examples of projects that were approved for funding prior to a departmental assessment having been undertaken.

Overall Audit Conclusions

23. The Regional Partnerships Programme is a very flexible discretionary grants programme. It has broadly based assessment criteria, and projects are subject to continuous assessment rather than being considered through structured funding rounds. Funding decisions are taken by Ministers.

24. In the first three years of the Programme to 30 June 2006, more than 1 800 applications for funding were submitted from applicants located across Australia. There were 1 372 funding decisions recorded, of which 983 (72 per cent) were approvals, at an average value of $183 652. Individual project grants ranged in size from $2 164 to $10.8 million[20], covering a diverse range of projects largely to benefit Regional Australia including:

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

25. The Regional Partnerships Programme has been subject to Parliamentary and media comment that it has been open to misuse for political purposes. Questions about whether decisions are merit-based arise partly due to the design of the Programme, which is a matter for Government policy, and partly due to its administration, which is the responsibility of the Transport and Regional Services portfolio Ministers and DOTARS.

26. In this context, there are two dimensions relating to the administration of the Programme that have been highlighted by the audit:

- the flexibility in the application assessment and Ministerial approval processes creates challenges in ensuring transparent, accountable and cost-effective administration and in demonstrating the equitable treatment of applicants; and

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

- the manner in which the Programme had been administered over the three year period to 30 June 2006 examined by ANAO had fallen short of an acceptable standard of public administration, particularly in respect to the assessment of grant applications and the management of Funding Agreements.

27. In respect to the first issue, the concern that decisions on projects were open to the interpretation that they had been made for political reasons and not on the merits of the project was the primary reason for the then Minister for Transport and Regional Services establishing a Ministerial Committee in November 2005 to take decisions on applications, replacing decisions by individual Ministers.

28. During the course of the audit, a number of changes to the administration of the Programme were introduced by the department, or proposed to (and agreed by) the Ministerial Committee, in response to audit findings and the department's observations of the administration of the Programme. The administrative changes introduced have encompassed both the operations of the Ministerial Committee in taking decisions on Regional Partnerships applications and the department's processes for administering the Programme. In this respect, by late 2006 the department had become aware of the nature and extent of the administrative problems it needed to address and had commenced a programme of significant administrative re-engineering, including the assessment of applications, the management of Funding Agreements and the monitoring and reporting of project and Programme outcomes.

Decision-making processes

29. Ministers are expected to discharge their responsibilities in accordance with wide considerations of public interest and without regard to considerations of a party political nature.[21] Where they are approving the making of a grant, Ministers are approving the expenditure of public money. This role brings with it particular accountability obligations, including statutory requirements which govern the circumstances in which Ministers may provide such approvals. In particular, the financial framework requires that a grant not be approved by Ministers unless reasonable inquiries have

[21] See King L.J (the Hon), November 1999, *The Attorney-General, Politics and the Judiciary*, delivered to the *Fourth Annual Colloquium of the Judicial Conference of Australia*.

been undertaken that demonstrate that the proposed expenditure will make efficient and effective use of public money.

30. Ministers are also expected to form their views having regard to the relevant Government policies and programme guidelines. In this context, although broadly expressed, the assessment criteria set out in the Regional Partnerships Programme Guidelines are sound and appropriate to the Programme. Experience has shown that applications which demonstrably satisfy the criteria are considerably more likely to result in projects that deliver sustainable outcomes in accordance with the timeline and budget specified in the Funding Agreement and having secured the necessary partnership funding.

31. In announcing the Programme, the responsible Ministers stated that there would be one set of guidelines and one simple application process to make it as easy as possible to apply for funding. Consistent with this announcement, the various versions of the Internal Procedures Manual have outlined how the information provided by applicants is to be used to inform project assessments and be incorporated into the Funding Agreement.

32. The Regional Partnerships Programme Guidelines have been published as the basis on which applications will be assessed and funding decisions made. In that context, potential applicants and other stakeholders may reasonably expect that the Programme funding decisions will be made in a manner, and on a basis, that is consistent with the published guidance.

33. The Senate Committee inquiry had its origins in concerns raised about the approval of grants for certain projects. In this respect, in the first three years of the Programme examined by ANAO, departures from the published guidance were a feature of the Programme. For example, in that period:

- there were instances where no application for funding was received prior to funding being approved[22] or the funding decision was not informed by a departmental assessment against the published Programme Guidelines and criteria;
- departmental assessments had been truncated, or 'fast tracked', or assessment procedures were not rigorously applied, such that DOTARS

[22] For example, funding has been obtained as a result of direct representations by project proponents or local Federal Members rather than by submission through the relevant ACC or DOTARS of a Regional Partnerships application.

did not adequately scrutinise applications before providing advice to Ministers;

- projects had been approved for funding notwithstanding that one or more criteria had not been satisfied, combined with inadequate documentation of the basis for those decisions; and
- Ministerial funding decisions had been taken or revised through processes other than those provided for in the Programme Guidelines and procedures advised to applicants.

34. Perceptions that funding decisions were not merit-based arise in such circumstances. These perceptions are elevated in circumstances where the basis for Ministerial decisions is not recorded (even though the financial framework does not require the basis to be recorded—see paragraph 37 below). In the three year period examined by the audit, there was a higher risk of anticipated outcomes not being achieved where administrative and decision-making processes had departed from those set out in the published Programme Guidelines and the complementary departmental procedures. In particular, departures from the documented Programme assessment criteria and procedures in the period examined by ANAO resulted in funding being approved for projects that have either not proceeded as planned or which did not result in the anticipated community benefits.

35. The experience of the administration of the Regional Partnerships Programme has reinforced the importance of departments undertaking a full analysis of the requirements of the financial framework governing the expenditure of public money in establishing a grants programme of this nature. This is necessary in order to ensure both Ministers and the department are informed as to their obligations and that the administrative arrangements established for the programme are able to give effect to those obligations in an efficient and effective manner. Guidance in this respect is available to agencies, predominantly from the Department of Finance and Administration (Finance).

36. In June 2007, ANAO, Finance and DOTARS agreed that, to enable compliance with the requirements governing the commitment of public money set out in the *Financial Management and Accountability Regulations 1997 (*FMA Regulations), future administration of the Regional Partnerships Programme should recognise that Ministers at the Ministerial Committee are approving proposals to spend public money, with these decisions being governed by the requirements of the financial framework. Specific action has subsequently been taken by the department in this area. More broadly, in light of apparent uncertainties and level of understanding around the application of the framework to Ministers when approving the expenditure of public money, there would be benefits in Finance examining opportunities so that Ministers may be appropriately informed of their responsibilities when giving such approvals.

37. The audit has also identified the potential for the financial framework governing the expenditure of public money to be improved. In particular, it has highlighted that the provisions of the existing framework do not require approvers of proposals to spend public money, including Ministers, to record the basis on which they were satisfied that a proposal represents efficient and effective use of public money. In some circumstances this leaves uncertainty as to the basis of decisions to provide a grant.[23] In the interests of transparency and accountability, ANAO has proposed that consideration be given to changes to the existing financial framework governing the expenditure of public money so as to require approvers of spending proposals to record the basis for their decision where this is not apparent from the existing documentation. A decision to seek any change to the framework would be a matter for the Finance Minister.

Distribution of funding

38. Over the first three years of the Programme examined by ANAO, Regional Partnerships applications were received at a considerably higher rate from applicants located in electorates held by the Coalition parties than in electorates held by other parties. This was, in large measure, a reflection of the fact that, consistent with the Programme's focus on regional and rural communities, the largest proportion (73 per cent) of Regional Partnerships applications submitted over the first three years related to projects located in electorates categorised as 'rural'. Over the period examined, rural seats were predominantly held by the Coalition parties. However, applications from Labor-held rural electorates were under-represented in the applications received compared to the proportion of rural electorates held.

39. Consistent with the pattern of applications, rural electorates received 77 per cent of funding approved to 30 June 2006.[24] Further in this respect, the ten electorates (6.7 per cent of all electorates) that received the highest number of grants approved between July 2003 and June 2006 (excluding grants relating

[23] See paragraphs 2:2.83 to 2:2.99 in Volume 2 of this audit report.

[24] Excluding funding approved for projects that covered various electorates.

to election commitments) were all rural electorates. They accounted for 34 per cent of approved grants and 31.1 per cent of approved funding to 30 June 2006.[25] All ten electorates were rural seats held by Coalition parties.

40. It is also noteworthy that there is little difference in the overall rate at which applications submitted by applicants in electorates held by the various parties were approved for funding over the full three years examined to 30 June 2006, with overall party success rates ranging from 69 per cent to 72 per cent.[26] However, ANAO analysis revealed that Ministers were more likely to approve funding for 'not recommended' projects that had been submitted by applicants in electorates held by the Liberal and National parties and more likely to not approve funding for 'recommended' projects that had been submitted by applicants in electorates held by the Labor party.[27]

Departmental assessment and administration of projects

41. The Regional Partnerships Programme is, by virtue of its design, challenging to administer. In these circumstances, it is particularly important that the department's administrative procedures are documented and that any departures from those procedures are well informed and appropriately authorised. Departments are responsible for ensuring published Programme Guidelines and documented internal procedures are consistently applied through training of staff, appropriate supervision and management oversight, particularly for larger or more complex assessments.

42. However, the audit has highlighted that a major shortcoming in the administration of this Programme by DOTARS in the first three years of its operation was the frequency with which departures occurred from the provisions of the published Programme Guidelines or documented internal procedures for the assessment of applications. As a result, the departmental assessments of applications against the published eligibility and assessment criteria were inconsistent and, in many cases, inadequate.

43. A particular area in which the department's administration of the Programme could have been improved was the extent to which departmental assessments were provided within abnormally constrained timeframes, but without the department appropriately qualifying its advice to Ministers to

[25] Excluding funding approved for projects that covered various electorates.

[26] See paragraphs 5:3.30 to 5:3.31 of Volume 2 of this audit report.

[27] See paragraphs 2:2.68 to 2:2.71 of Volume 2 of this audit report.

reflect the reduced due diligence that had been undertaken. This was particularly the case during the months leading up to the calling of the 2004 Federal election. A corollary to this was the significantly higher proportion of projects that the department recommended be approved for funding during that period than was the case during other periods of the Programme.

44. Due to documented assessment procedures not being applied, or being applied in a manner that was insufficiently rigorous, projects that did not demonstrably satisfy the published criteria were nevertheless assessed by the department as meeting the criteria and recommended for funding approval. This contributed to increased risks to the Commonwealth and presented substantial administrative challenges for the department in administering grants to projects that subsequently experienced difficulties in relation to issues such as establishing and completing a viable project or securing necessary co-funding.

45. In this context, the audit further highlighted that the department's administration of Funding Agreements with successful applicants had not ensured that the terms of Ministerial funding decisions were complied with. Revised procedures instituted from July 2007 now explicitly address the need for adherence to the terms of Ministerial funding decisions. The administration of Funding Agreements had also not been consistent with sound risk and financial management principles. In particular:

- notwithstanding that the Programme is founded on the principle that applicants and other project partners (if any) will make a financial contribution to the cost of the project, partnership funding arrangements had often been given insufficient attention in the assessment of applications and, for approved projects, the development and management of Funding Agreements;
- in the interests of maximising Programme expenditure against a history of significant under-spends, there had been a focus on paying half or more of the approved funding at or around the time the Funding Agreement was signed (irrespective of project cash flow requirements and notwithstanding that Funding Agreement pre-conditions applying to those payments may not have been satisfied) and subsequently making further instalment payments notwithstanding that funding recipients had not acquitted earlier payments or met other contractual obligations; and

- funding recipients had not been consistently required to provide the information necessary for the department to monitor project progress and, at the conclusion of the project, make an informed judgement as to whether they had satisfied their obligations and delivered the outcomes and value for money anticipated of the project at the time it received Ministerial approval.

46. Accordingly, the administration of the Programme will benefit from stronger governance arrangements that provide assurance to the department's Chief Executive and Ministers that key departmental procedures are being applied, and that any conditions on the approval of funding by Ministers are adhered to. The revised internal procedures released in July 2007, as part of the department's re-engineering of its administration of the Programme, are consistent with these principles. In addition, as noted:

- in November 2006 over 120 staff were trained on the process of negotiating and executing a Funding Agreement; and
- a revised Standardised Funding Agreement was released for use on 27 August 2007.[28]

47. As a separate issue, the department has found it difficult to spend the funds allocated to the Programme from its annual administered appropriations. In recognition of the unique design of the Programme and the delays often experienced with projects, to assist with increased expenditure of available funding, the Finance Minister recently agreed to a request that the Ministers responsible for regional development be authorised to approve funding for projects without any limit being placed on the total amount of funding that may be committed.[29] If the Government considers it important that the department take further steps to spend the annual budgeted allocation, rather than the department making payments in advance of project requirements as has previously occurred, DOTARS should seek to improve its information on Programme funding needs by obtaining better information on

[28] The Standardised Funding Agreements used by DOTARS in its management of the Regional Partnerships Programme have been versions of the Long Form and Short Form Standardised Funding Agreements developed by the Australian Government Solicitor (AGS) as part of the More Accessible Government Initiative. The Long Form version of the Standardised Funding Agreement was used for most Regional Partnerships projects during the first four years of the Programme.

[29] Such authorisations are usually subject to specified monetary limits so as to manage the extent to which commitments to spend public money are entered into where funds have not yet been appropriated. In providing his authorisation, the Finance Minister required that the question of a monetary limit for the new authorisation applying to the Regional Partnerships Programme be revisited before August 2008 in the light of experience.

the forward funding expectations for each project from applicants during the project assessment stage and, where funding is approved, updating this information as part of its project monitoring activities. Such an approach would provide more scope to fund additional applications under the Programme consistent with budget allocations.

Project and programme outcomes

48. A three stage programme evaluation framework was established for the Regional Partnerships Programme. The Senate Committee in its report recognised that evaluation of individual project outcomes is fundamental to any measure of the success or otherwise of grants programmes. In this respect, the department's programme evaluations and associated performance reporting in relation to the Regional Partnerships Programme have not been informed by analysis of actual outcomes formally advised by funding recipients through the Funding Agreement reporting framework. Instead, in terms of categorising and analysing project outcomes, evaluations and departmental performance reporting have used project assessment and Funding Agreement data of proposed, rather than actual, outcomes together with surveys of Programme applicants.

49. In support of the requirement for programme evaluation and consistent with recognised principles of sound practice in grants administration, the Regional Partnerships Long Form Standardised Funding Agreement has required funding recipients to report details of their project's progress towards, and performance against, the specified outcomes. However, in respect to the outcomes reporting requirements, DOTARS' administration has been less than adequate. In particular, in only 21 per cent of the relevant completed projects examined by ANAO had DOTARS obtained from the funding recipient a report that supported an assessment that all outcomes had been achieved.

50. Since it commenced in July 2003, one of the key stated features of the Regional Partnerships Programme has been that applicants and their other project partners (if any) are expected to make a financial contribution to the cost of funded projects. It has been widely reported, including in DOTARS Annual Reports, that the Programme has attracted an average of $3 in contributions from other sources for every $1 contributed by the Programme to projects. However, the department's assessment of partnership contributions has often been such that project assessments and Funding Agreements have overstated the partner contributions to a project. In addition, inadequate attention has been given to the management and acquittal through the Funding Agreement of partner co-funding. As a result, the effectiveness of the Programme in attracting project funding from other partners has been overstated by the department through:

- using data from the project budget included in Funding Agreements to identify the contributions 'made' by partners rather than data of actual partner contributions;
- aggregating cash and in-kind[30] contributions included in Funding Agreements, notwithstanding that the department has recognised the different nature of the two types of contributions and that project acquittals have rarely demonstrated the in-kind contributions that were actually obtained; and
- not discriminating between genuine leveraging or attraction of funds from other sources and circumstances where most or all partner funding has been secured prior to Regional Partnerships funding being approved.

Programme improvements

51. As noted, changes have been made to the operation of the Regional Partnerships Programme and the department has commenced a programme of significant administrative re-engineering. Nevertheless, challenges remain in respect to key aspects of the Programme. In this respect, during the course of the audit, ANAO observed that a measure that could be of considerable benefit in the administration of the Regional Partnerships Programme was the re-consideration of structured and competitive funding rounds, as opposed to the existing approach of continuous, non-competitive application and assessment processes. The introduction of competitive rounds would provide benefits including:

- allowing for a stronger and more consistent comparison of the relative merits of proposed projects;
- in the interests of equity of access, assisting to ensure that the communication of opportunities to access funding through the Programme is more evenly broadcast; and

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30 The Programme Guidelines define in-kind contributions as products or services provided to the project that have an intrinsic value, but are not provided as direct cash or financial support. Examples are said to include volunteer labour and the use of an office at no charge (the value of the rent not charged would be an in-kind contribution).

- avoiding some of the perceptions that projects may be approved for funding for party political purposes, including through the 'fast-tracking' of assessment and approval processes, particularly in the context of a pre-election period.

52. A review of the Programme requested by the Government was completed in February 2006 and presented as part of the departmental submission to the 2006–07 Budget. In the context of the Government's response to the October 2005 Senate Committee report, the Government agreed to assess the need for a further review of the Programme once the mid-term Programme evaluation was completed (which occurred in November 2006), and the report of this ANAO performance audit became available. In August 2007, the Finance Minister indicated that the terms of reference for the Programme review would have regard to the issues raised by this performance audit.

53. Against this background, on 12 September 2007, the Minister for Transport and Regional Services announced[31] that:

- a new Growing Regions Programme would be established to invest in major projects that will help communities respond to the pressure of change, under which businesses, local governments, institutions and communities would be able to apply for funding of between $1 million and $3 million per project;
- the Regional Partnerships Programme would be restricted to projects that need funding of less than $1 million; and
- applications for Regional Partnerships funding would be considered in three streams of:
  - Enterprise Partnerships, into which all applications from private businesses would be channelled and considered through two funding rounds a year[32];
  - Community Partnerships, to which all other applicants would be able to apply at any time; and

[31] The Hon Mark Vaile, Minister for Transport and Regional Services, *National Press Club Address Plan for Regional Australia*, VS19/2007, 12 September 2007.

[32] In announcing this change, the Minister said: 'We are restricting the timing of these applications so we can consider them more thoroughly and undertake stronger financial viability assessments.'

– applicants, other then private businesses, seeking funding of less than $50 000 would be able to apply through a streamlined application process.

54. These changes provide both a clearer focus for applicants in applying for grants and for the department in tailoring its administration of each stream. However, based on the nature of applications made to the Regional Partnerships Programme during its first three years of operation:

- the introduction of a funding cap of less than $1 million will not result in a significant change in the number of applications being made to the Programme, with only 2.6 per cent of applications on which a decision had been made as at 30 June 2006 having been for amounts in excess of $1 million; and
- under the Community Partnerships stream, most applications will continue to be considered for funding on a continuous basis through similar decision-making and administrative procedures as have applied to date. In this respect, applications from for-profit applicants, which will now be subject to funding rounds, represented 12 per cent of Regional Partnerships applications on which a decision had been taken as at 30 June 2006.

55. Accordingly, opportunities remain to further improve the delivery of the Programme, including consideration of options for funding under the Community Partnerships stream to be provided through structured funding rounds. It would also be possible to stream rounds to allow applications for particular purposes to be considered on a competitive basis. For example, natural groupings have emerged in terms of the nature of projects for which funding has been sought, such as:

- community and public infrastructure (for example, community pools or sporting facilities, community halls, community transaction and services centres, cultural or tourism facilities or attractions);
- health and education related projects; and
- regional and local government planning-related projects (for example, tourism strategies, skills audits and attraction strategies, or business attraction programmes).

56. A further opportunity to improve the cost-effectiveness of Programme administration relates to the arrangements applying to low value grants. As noted, a streamlined application process is to apply to applications through the

Community Partnerships stream seeking funding of less than $50 000.[33] In a risk management context, this is a sensible approach to balancing the cost of administration with the value of the grant. There may also be merit in the department providing advice to Ministers on options for applying a different administrative approach for grants of low value under which community organisations could apply for funding for particular purposes. While such grants would necessarily still be subject to certain obligations on the part of the funding recipient, there may be options for reviewing both the manner in which the grants are administered and the reporting and other obligations imposed on funding recipients. Because any changes in this respect would affect the Programme design, they are appropriately matters for Government to decide.

57. ANAO has made 19 recommendations to further improve departmental procedures and practices, and to encourage further attention to aspects of the Programme's administration in the interests of improving transparency and accountability. A further recommendation is directed at enhancing the existing framework governing the expenditure of public money, including through discretionary grants programmes such as Regional Partnerships. Departmental responses to the audit and recommendations are summarised at paragraphs 283 to 284.

58. The findings and recommendations of this audit will also be of relevance to the establishment of effective and accountable governance arrangements for the new Growing Regions Programme.

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[33] This reflects the May 2007 decision of the Ministerial Committee to agree to a recommendation from the department to extend the existing simplified application and assessment process for applications seeking funding of $25 000 or less to applications for $50 000 or less.

Summary—Application Assessment and Approval Processes (Part 2 of report)

Introduction—Application assessment and approval processes

59. In announcing the Regional Partnerships Programme, the Government stated that there would be one set of guidelines and one simple application process to make it as easy as possible to apply for funding. Applications may be submitted, either electronically or in hard-copy form, and considered for funding at any time. This flexibility is a key feature of the Programme's administration.

60. The process for Ministerial decision-making in respect of Regional Partnerships applications has undergone some changes over the course of the Programme, but the essential elements have remained constant. The steps generally followed are:

- the department's assessment of an application is provided to the Minister(s)[34], together with the relevant ACC's comments and recommendation. The material provided includes a description of the project and applicant; the Federal electorate in which the project is located; the departmental assessment of the application against each of the criteria identified in the Programme Guidelines; the department's recommendation as to whether the application should be funded or not; the amount of any recommended funding; and any conditions DOTARS recommends should be attached to any funding;
- the Ministerial decision-maker considers each application individually and indicates on the relevant assessment summary and/or covering Minute whether he or she agrees with the department's recommendation, including any recommended funding conditions. Where a Minister does not agree with the department, he or she will mark on the assessment summary and/or covering Minute whether funding is approved or not, the value of approved funding and any conditions attached to any funding. Alternatively, the Minister may

[34] For the first two years of the Programme, applications were usually submitted for Ministerial decision in batches (or packages). Some applications that were identified as being time-critical or requiring consideration by a different Minister (due to being located in the electorate of the usual Ministerial decision-maker) were submitted individually. Since mid-2005**,** applications have been submitted for Ministerial consideration on an individual basis, under individual covering Minutes.

refer the application back to the department for further information, and then give the application further consideration prior to making a final decision; and

- applicants are then advised of the outcome. For approved applications, the Minister signs letters advising the applicant, the local Federal Member of Parliament (or duty government Senator for projects that are in electorates held by a non-Coalition Member), and the Chair of the relevant ACC of the approval and any conditions that may be attached to the funding.[35] The letters are date stamped and dispatched by the Minister's Office. The Coalition local Member or duty Senator is invited to publicly announce the funding approval. For applications that are not approved, a DOTARS official signs letters advising the applicant and relevant ACC Chair of the decision and the reasons for the non-approval of the application.

Changes to Programme administration

61. Prior to 30 November 2005, decisions on which projects were to receive Regional Partnerships funding were made by individual Ministers. With effect from 30 November 2005, these decisions have been made by a committee of three Ministers, chaired by the Minister for Transport and Regional Services. The then Minister had proposed the formation of the Ministerial Committee to the Prime Minister in October 2005 in order to address the concern that decisions on projects were open to the interpretation that they had been made for political reasons and not on the merits of the project.

62. Another change announced in November 2005 was the introduction of the single assessment process within DOTARS' Canberra National Office, replacing the previous approach of the network of Regional Offices undertaking most assessments. This change, which the then Minister had proposed in order to reduce assessment times and improve the consistency of recommendations made to Ministers, was implemented with respect to applications submitted from mid-March 2006.[36]

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[35] For all approved projects this includes a requirement that the successful applicant enter into a Funding Agreement with the department.

[36] As ANAO examined applications on which Ministerial funding decisions had been taken by 30 June 2006, there were few applications that had been through the National Office single assessment included in ANAO's sample. However, there were some project assessments completed by National Office prior to March 2006 that did not involve the relevant Regional Office. See for example, the ANAO case study of RP01101 Beef Australia 2006 in Chapter 5 of Volume 3 to this audit report.

63. DOTARS has advised ANAO of various enhancements and modifications it had made to its management of the Regional Partnerships Programme. In the area of application assessment and approval processes, these changes included:

- revision of the Programme Guidelines in July 2006 and updated in July 2007;
- establishment of an internal Regional Partnerships Management Board which meets monthly to discuss and clarify policy issues, review approved projects that encounter difficulties, track payments against forecast commitments at Programme level and keep National Office and Regional Office staff informed of Programme priorities and directions determined by the Ministerial Committee;
- revision of the Regional Partnerships Internal Procedures Manual between December 2006 and June 2007 in order to provide all officials involved in Programme administration with clear advice on what is expected at each stage of the process—and committing to a regular review and ongoing revision of the Manual to ensure it remains up-to-date and consistent with Programme policy and procedures; and
- the modification and extension of the Information Technology system used in the administration of the Programme (TRAX) and developing a new eGrants application form.

64. While the above-mentioned changes and those announced in November 2005 by the then Minister have had positive effects on Programme administration, the fundamental administrative underpinnings have remained constant, with the same essential programme objectives. The revised Programme Guidelines issued in July 2006 provided potential applicants with expanded advice regarding the assessment process and criteria, including making it explicit that existing eligibility elements, such as the extent of competitive advantage that funding approval might provide to an applicant, would now be treated as assessment criteria. This expanded guidance did not, however, alter the essential criteria taken into account in the departmental assessment of an application in respect of which Ministers make all final funding decisions.

Audit conclusions—Application assessment and approval processes

65. Published Programme Guidelines and departmental internal procedures document the application assessment and approval processes for the Regional Partnerships Programme. The Guidelines and procedures manual have been revised and updated over the course of the Programme.

66. One benefit of having in place documented internal procedures that support published Programme guidance is to give confidence that consistent standards of administration will be adopted. This is particularly important for programmes that involve assessments for grants funding, due to the importance of applicants being treated equitably. In this context, ANAO examined the application assessment and approval processes applied to each project for which a funding decision was made in the first three years of the Programme. ANAO also examined all departmental and ACC records relating to 278 successful and unsuccessful applications made by applicants located in a representative sample of 11 ACCs.

67. The measure of a good grants appraisal process is that it is transparent and can be expected to result in the selection of those projects that best represent value for money in the context of the objectives of the particular grants programme. Consistent with these principles, since the commencement of the Regional Partnerships Programme, the published Guidelines have identified three primary areas as being the basis for assessing the value for money provided by each application—project and applicant viability, partnerships and local support, and project outcomes.

68. Although broadly expressed, the assessment criteria are sound and appropriate to the Programme. Experience in respect to grants approved in the first three years of the Programme has shown that applications which demonstrably satisfy the criteria are considerably more likely to result in projects that deliver sustainable outcomes in accordance with the timeline and budget specified in the Funding Agreement and having secured the necessary partnership funding.

69. However, a feature of the Programme's administration in the three years to 30 June 2006 was the frequency with which practices departed from the published Programme Guidelines and documented internal procedures. This was reflected in:

- funding being approved for projects notwithstanding the absence of a completed Regional Partnerships application or a departmental assessment against the Programme criteria;
- departmental assessments being truncated, or 'fast tracked', or assessment procedures not being rigorously applied, such that DOTARS did not adequately scrutinise applications before providing advice to Ministers;
- projects being approved for funding notwithstanding that one or more criteria have not been satisfied, combined with inadequate documentation of the basis for these decisions; and
- Ministerial funding decisions being taken or revised through processes other than those provided for in the Programme Guidelines and procedures advised to applicants.

70. Of particular note in these respects was the significantly higher tempo of funding applications, project approvals and announcements that occurred in the eight months leading up to the calling of the 2004 Federal election compared to the remainder of the three years examined by ANAO. A surge in grant approvals and announcements occurred during this period notwithstanding that many of the projects recommended and approved for funding were under-developed such that they did not demonstrably satisfy the Programme assessment criteria.

71. In this context, it is important that departments provide sound advice to Ministerial decision-makers so that funding decisions are based on a rigorous assessment of whether proposed grants represent efficient and effective use of public money. However, reduced scrutiny of projects during this period was not balanced by the department drawing the decision-maker's attention to the increased risks involved in approving projects that did not, on an objective assessment, satisfy the Programme Guidelines. Nor, in most cases, did the department otherwise qualify its assessment to reflect the often limited extent of due diligence on which it was based. Instead, the proportion of projects considered during this period that were recommended for funding approval was significantly higher (80 per cent) that had occurred in the preceding period (57 per cent) or in the nearly two years to 30 June 2006 that followed the 2004 election.

72. It is a recognised and accepted practice that during election campaigns Ministers, and other government and non-government candidates, will announce party election policies and commitments. In the light of Ministers' statutory obligations when approving the expenditure of public money, it is important that departments advise Ministers on any measures considered necessary to manage risks to the Commonwealth achieving value for money when acting on election commitments. However, DOTARS did not provide early advice to Ministers on options to fund commitments where the Programme Guidelines were not satisfied, or advice on their statutory obligations in approving the expenditure of public money on election commitments.

73. The departures from documented decision-making procedures in the three years to 30 June 2006 were exacerbated by the published Programme Guidelines and departmental internal procedures not addressing the circumstances and manner in which such departures may occur, and the manner in which they should be recorded. In addition, some aspects of the decision-making process have not been articulated, with resulting procedural inconsistencies meaning that it has not been possible to demonstrate that all applicants have received equitable opportunities to access funding. For example, ANAO observed instances in which applicants or local Federal Members have been provided with an opportunity to engage with the department and Ministers (or their Offices) during the decision-making process in a manner not generally made available or made known.

74. In this context, formation of the Ministerial Committee was proposed to address the concern that decisions on projects were open to the interpretation that they had been made for political reasons and not on the merits of the project. However, a notable feature of Ministerial funding decisions in the period examined by ANAO was the increased rate at which the Ministerial Committee had disagreed with departmental recommendations compared to earlier Ministerial decision-makers. In the period examined, the Ministerial Committee did not record the basis for a number of those decisions.

75. The financial framework governing commitments to spend public money reflects sound principles that have evolved over time. Specifically, Part 4 of the FMA Regulations, *Commitments to spend public money*, sets out a hierarchy of requirements that must each be satisfied, in the appropriate sequence, in order for a commitment to spend public money to be lawfully entered into. This includes requirements that:

- a grant not be approved by Ministers unless reasonable inquiries have been undertaken that demonstrate that the proposed expenditure will make efficient and effective use of public money; and

- the terms of the Ministerial approval be documented.

76. In developing and implementing the Regional Partnerships Programme, Ministers decided they should retain the role of approving grant applications.[37] As a result, since the commencement of the Programme, Ministers have made all final funding decisions. However, DOTARS had not in the initial implementation of the Programme or prior to July 2007 advised its Ministers of the obligations that arise under the FMA Regulations in relation to exercising the discretion to approve proposals to spend public money for individual grant applications. Nor had the department undertaken a thorough analysis of the requirements of the financial framework governing the expenditure of public money in order to ensure that the administrative arrangements established for the Programme were able to give effect to those obligations in an efficient and effective manner.

77. As a result of these oversights, the governance arrangements for the Programme developed prior to its commencement on 1 July 2003, and in place during the period examined by ANAO, did not promote compliance with the financial framework. Consideration of such issues was particularly important given the Programme involves Ministers making decisions on grant applications for varying amounts and project types on a continuous basis. The absence of explicit consideration of how to administer the Programme in a manner that promoted compliance with the financial framework was reflected in 487 projects being approved for funding between 1 July 2003 and 30 June 2006 without the necessary FMA Regulation 10 authorisation[38], involving Regional Partnerships expenditure totalling $110.402 million (plus GST).[39] It was also reflected in Funding Agreements being signed by the department that did not accord with the terms of funding approved by Ministers.

78. In terms of the Regional Partnerships Programme, in June 2007, ANAO, Finance and DOTARS agreed that, to enable compliance with the FMA

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37 Under the financial framework, an official must not approve a proposal to spend public money unless authorised by a Minister or Chief Executive, or by or under an Act, to approve the proposal.

38 FMA Regulation 10 prohibits the approval of a spending proposal that is not fully supported by an available appropriation (either in an Act or proposed in a Bill before the Parliament), unless the Finance Minister has given written authorisation for the approval. Based on the project duration advised to the Ministerial decision-maker(s), in the first three years of the Programme there were 696 projects (487 of which were approved) that required a written Regulation 10 authorisation before the Ministerial decision-maker(s) could consider the approval of funding.

39 In this respect, up to 30 June 2006, DOTARS did not report a single instance of a departmental official exercising the Regulation 10 delegation from the Finance Minister to authorise the approval of a Regional Partnerships grant. Reporting the exercise of the delegation to the Department of Finance and Administration was a requirement of the terms of the Finance Minister's delegation to Chief Executives.

Regulations, future programme administration should recognise that Ministers at the Ministerial Committee are approving spending proposals, with these decisions governed by the requirements of the financial framework. Specific action taken by the department in this area has involved:

- obtaining an authorisation from the Finance Minister in August 2007 for the Ministers responsible for regional development to consider approving spending proposals in relation to the Regional Partnerships Programme in circumstances where the project involves expenditure beyond available appropriations. The authorisation is subject to no monetary limit[40] which addressed, for the first time, the unique design and circumstances faced by the Regional Partnerships Programme (including an ongoing approval process (without rounds) by a Ministerial Committee)[41];
- revising the briefing material to be provided to the Ministerial Committee when considering the departmental assessment of a Regional Partnerships application. The revised material identifies the obligations on Ministers arising under the financial framework, including when considering approving funding for a project that has not been recommended by the department;
- obtaining a delegation from the Ministerial Committee for departmental officials to approve minor project variations, providing that total funding does not exceed the Regional Partnerships amount approved by Ministers, all conditions agreed by Ministers are implemented and the total level of the partner contributions remains at or above the percentages specified in the Guidelines; and
- a revised Internal Procedures Manual issued to DOTARS staff that has emphasised the requirement for Funding Agreements to comply with the terms of the Ministerial approval. In particular, officials signing Funding Agreements are now required to certify to certain matters, including that:
  - the Funding Agreement is for the same amount as that approved by the Minister(s);

40 Subject to DOTARS ensuring actual expenditure does not exceed available appropriations.

41 In providing the authorisation, the Finance Minister: noted that the authorisation did not remove the responsibilities on those approving spending proposals to be satisfied that the requirements for the expenditure of public money are met; and proposed that DOTARS and Finance review the arrangement within the next year in the light of experience, to determine whether the arrangements continue to be appropriate, and to revisit the question of a monetary limit for the authorisation.

– the Funding Agreement accurately reflects the overall project, and the purposes for which Regional Partnerships may be used within that project, as approved by the Minister(s); and

– conditions of approval identified by the Minister(s) that have not been met prior to entering into the Funding Agreement have been included in the Funding Agreement.

Improvements to Programme administration

79. Revised Programme Guidelines were developed and issued as part of a suite of changes to the Regional Partnerships Programme announced by the then Minister for Transport and Regional Services in November 2005. The revised Guidelines included the clarification of assessment criteria and the provision of more detail on the type of information needed for a project to have the best chance of success. The revised Guidelines also advised that meeting the assessment criteria did not guarantee funding. However, they did not disclose that projects that do not meet the criteria may, nevertheless, be approved for funding and the envisaged circumstances in which this could occur. As noted above, in the three years examined by ANAO, this latter flexibility has been a feature of the administration of the Programme.

80. DOTARS' advice and the supporting information provided to ANAO on Programme improvement initiatives introduced largely in response to issues raised in the course of the audit has been taken into account in preparing this report. This includes:

- the improvement from August 2006 in the administration of in-session decisions of the Ministerial Committee by the inclusion in the record of Committee meetings of an annotation of reasons for decisions taken (although many funding decisions are made outside of Committee meetings);
- the Committee's agreement in July 2007 to revised briefing material to be provided when future applications are submitted for its consideration. The revised briefing will identify the Ministers' obligations under the financial framework governing the expenditure of public money, including when considering the approval of funding for a project that has not been recommended by the department; and will advise the Committee that, in such circumstances, it would be prudent for it to document a reason for the approval and any additional information considered; and

- procedures approved by the Committee in September 2007 to manage potential conflicts of interest in respect to projects located in the electorate of a member of the Committee.

81. A number of the departures from the documented decision-making processes and associated administrative shortcomings have arisen as a result of, or due to the opportunities provided by, features of the Programme including the absence of funding rounds. In some instances, the absence of funding rounds may provide an appropriate process for providing assistance to eligible projects that offer desirable outcomes and value for money to the Australian Government, but which have time constraints. However, such flexibility also brings with it particular challenges in terms of maintaining transparency, accountability and equity in the decision-making process, and the demonstrable achievement of value for money for the public money expended.

82. In this context, on 12 September 2007, the Minister for Transport and Regional Services announced that applications for Regional Partnerships funding will now be limited to under $1 million[42] and considered in three streams of:

- Enterprise Partnerships, into which all applications from private businesses will be channelled. Applications for funding under this stream will be considered through two funding rounds a year. In announcing this change, the Minister said:

  > We are restricting the timing of these applications so we can consider them more thoroughly and undertake stronger financial viability assessments;

- Community Partnerships, to which all other applicants will be able to apply at any time. There will continue to be a partnership funding requirement under this stream, but it will be reduced for some local government and not-for-profit and charitable organisation applicants; and
- Grants under $50 000. Applicants seeking funding of less than $50 000 will be able to apply through a streamlined application process, except for private businesses.

83. This more structured approach will assist in addressing some of the issues raised in this performance audit. This is particularly the case in relation

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[42] Of the applications on which a decision had been made as at 30 June 2006, 2.6 per cent had applied for amounts in excess of $1 million.

to applications from for-profit applicants, which will now be considered through structured funding rounds. In this respect, applications from for-profit applicants represented 12 per cent of Regional Partnerships applications to 30 June 2006.

84. Therefore, based on the nature of applications made to the Programme during its first three years, most applications will continue to be considered for funding on a continuous basis, under the Community Partnerships stream, through similar decision-making and administrative procedures as have applied to date.

85. In that context, ANAO has made seven audit recommendations in this part of the audit report to assist to further improve the Programme's application assessment and approval processes. A further recommendation is directed at enhancing the existing framework governing the expenditure of public money, including through discretionary grants programmes such as Regional Partnerships.

Key Findings—Application assessment and approval processes

Accountability for funding decisions (Chapter 2:2)

86. The financial framework governing the entering into of commitments to spend public money reflects sound principles that have evolved over time. Specifically, Part 4 of the FMA Regulations, *Commitments to spend public money*, sets out a hierarchy of requirements that must each be satisfied, in the appropriate sequence, in order for a commitment to spend public money to be lawfully entered into. This includes requirements that:

- a grant not be approved by Ministers unless reasonable inquiries have been undertaken that demonstrate that the proposed expenditure will make efficient and effective use of public money; and
- the terms of the Ministerial approval be documented.

87. In developing and implementing the Regional Partnerships Programme, Ministers decided they should retain the role of approving grant applications. As a result, since the commencement of the Programme, Ministers have made all final funding decisions.

88. DOTARS, in advising on the implementation of the Programme and in the period to July 2007, did not inform Ministers of the application of the financial framework to the decisions they had decided to retain responsibility for in relation to the approval of grants. In particular, Ministers were not advised of the obligations that arise under the FMA Regulations in relation to exercising the discretion to approve proposals to spend public money for individual grant applications, including that:

- any grant that would involve expenditure beyond available appropriations can not be properly approved without the Minister having been first authorised in writing to do so by the Finance Minister or a delegate (Regulation 10); and
- Ministers should not approve a grant without having first undertaken reasonable inquiries so as to be satisfied that the expenditure will be in accordance with the policies of the Commonwealth and make efficient and effective use of the public money (Regulation 9 refers[43]). This is of particular relevance where Ministers wish to approve a grant that the department has not recommended for funding, based on the outcome of its assessment process, or where the department has not undertaken an assessment.

Programme decision-making procedures

89. As a result of the design of the Regional Partnerships Programme, each Ministerial decision is taken separately from the consideration of other applications.[44] The rationale for a Ministerial funding decision that differs from the departmental recommendation should therefore relate to the merits of the relevant application when considered against the Programme assessment and eligibility criteria.

90. In considering whether to approve funding for an application, the Ministerial decision-maker usually receives formal advice from two sources:

- the relevant ACC, which assigns a priority rating to the application, having regard to the extent to which it is considered by the ACC to be consistent with its Strategic Regional Plan and the Programme Guidelines; and
- the department, through its assessment of the application against the Programme Guidelines.

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[43] The terms of FMA Regulation 9 are to be read conjunctively such that there is a requirement for an approver to comply with all aspects in approving a spending proposal.

[44] This is a differentiation from grants programmes that involve funding rounds and the comparative ranking of competing applications.

91. Ministers are not obliged to accept the recommendations of officials or other advisory bodies, such as ACCs. There is also no requirement for Ministers to document the nature and extent of any inquiries undertaken, or caused to be undertaken, to satisfy themselves that a proposed grant would make efficient and effective use of public money, or to record any reasons for the decisions taken.

92. Nevertheless, where Ministers reach a different decision to that recommended it is recognised as being sound practice to document the basis for the decision taken. This aids programme transparency and public accountability and allows Ministers to demonstrate that the programme parameters, as established by the government and advised to the public, were being met and all applicants treated fairly. It also assists in demonstrating that the decisions have been taken in accordance with relevant statutory requirements.

93. In this context, in the first three years of Programme operation, in addition to receiving departmental and ACC advice in making funding decisions for Regional Partnerships projects, Ministers have on various occasions:

- had their Office undertake additional inquiries in relation to the proposed project;
- requested additional information from the department before making a decision in relation to a Regional Partnerships application that the department has not recommended for funding; or
- received a revised departmental recommendation after indicating to the department an inclination to approve funding for a 'not recommended' project.

94. Also, on some occasions, a Minister has taken the decision to approve Regional Partnerships funding for a project prior to the department undertaking an assessment of the project against the Regional Partnerships Guidelines.[45] The documentation available in relation to the decisions on each of these projects did not identify the basis on which the Minister had determined that the expenditure would make efficient and effective use of the

[45] Nine such instances were noted by ANAO. Five of those were approved in the months leading up to the announcement of the 2004 Federal election, three were approved during the 2004 election campaign and one was approved in the period since the election.

public money, having regard to the assessment and eligibility criteria set out in the published Programme Guidelines.

ACC ratings and recommendations

95. In the three years to 30 June 2006, ANAO noted a number of instances in which there had been a departure from the documented procedures for ACC involvement in the assessment of Regional Partnerships applications. This included projects where ACC comments were received after the project had been considered by the Minister, and others where the ACC was not asked to rate the project or advised the department that it had not been provided with sufficient information or time to provide a rating.

96. In addition, during the three year period that was examined, it was common for Ministers to disagree with the funding recommendation provided by ACCs. Specifically, Ministerial decisions to 30 June 2006 differed from the ACC recommendation in relation to 23.6 per cent[46] of applications on which an ACC rating was obtained prior to the Ministerial decision. The extent to which Ministerial decisions differed from ACC recommendations was highly variable across individual ACCs, ranging from Ministerial agreement to all of the ACC's recommendations up to Ministerial disagreement with 50 per cent of the ACC's ratings of projects on which a funding decision had been taken.

Departmental project assessments and recommendations

97. A total of 1 366 funding decisions[47] were taken between 1 July 2003 and 30 June 2006 where there was a departmental recommendation before the Ministerial decision-maker. The Ministerial decision differed from the departmental recommendation on 88 occasions (6.4 per cent of decisions), of which 50 (3.7 per cent of decisions) related to the Minister approving funding for a project not recommended by the department or approving higher funding than DOTARS had recommended.

98. The record of approval for 44 of the 50 applications that the department had assessed as not satisfying the Programme Guidelines or as only satisfying the Guidelines for lower funding did not set out the basis on which the Minister had considered the project to be in accordance with the Guidelines and represent efficient and effective use of the public money, having regard to

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46 Similarly, the departmental recommendation disagreed with 25 per cent of ACC recommendations over the same period.

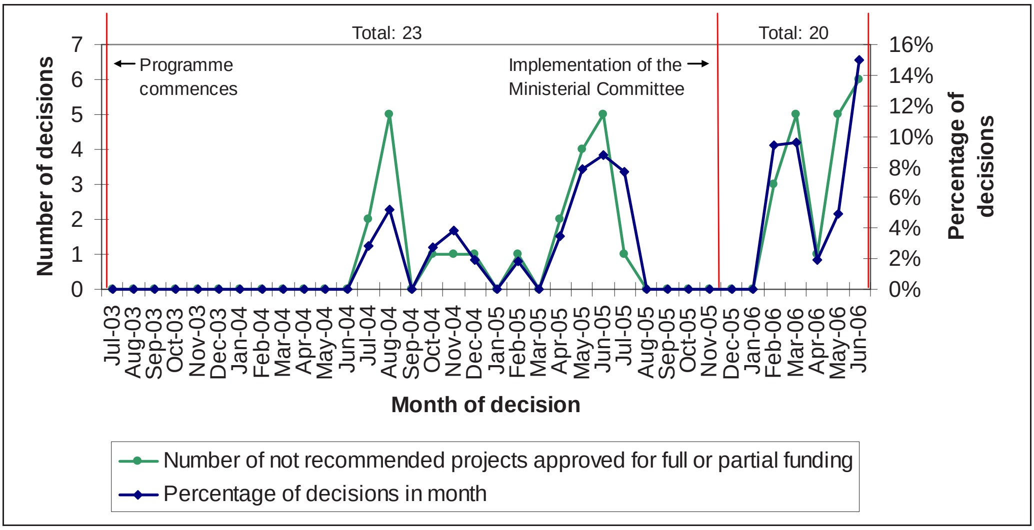
47 Excluding decisions in relation to variations to approved projects.

the nature of the advice provided in the departmental assessment and ACC comments.

99. In this context, formation of the Ministerial Committee was proposed by the then Minister for Transport and Regional Services in October 2005 to address the concern that decisions on projects were open to the interpretation that they had been made for political reasons and not on the merits of the project. However, a feature of Ministerial funding decisions has been the significant variation in the extent to which 'not-recommended' projects have been approved for funding at various stages of the Programme's administration (see Figure 1).

Figure 1

Number of decisions to approve 'not recommended' projects



Source: ANAO analysis of departmental recommendations and Ministerial funding decisions.

100. No decisions to approve a not recommended project were taken until July 2004, one year into the Programme. Since then, there has been an increasing occurrence of 'not recommended' applications being approved, particularly under the operation of the Ministerial Committee. It is noteworthy that:

- Ministers were more likely to approve funding for 'not recommended' projects that had been submitted by applicants in electorates held by the Liberal and National parties and more likely to not approve funding for 'recommended' projects that had been submitted by applicants in electorates held by the Labor party; and

- a relevant factor in the low occurrence of Ministers disagreeing with DOTARS' recommendations between December 2003 and August 2004 was the significantly higher rate at which the department recommended that applications considered in that period be approved for funding compared to later periods (see Table 2). The effect of the increasing occurrence of 'not recommended' projects being approved for funding in the first half of 2006 under the Ministerial Committee is evident in the increased differential between the recommended and approval rates also identified in Table 2. In the period examined, the Ministerial Committee did not record the basis for a number of those decisions.

Table 2

Comparison of recommended and approval rates to occurrence of 'not recommended' projects being approved to 30 June 2006

Period	Recommended rate[A]	Approval rate	'Not recommended' projects approved	
			Number	Proportion of approvals
July 03 to Nov 03	57%	57%	Nil	Nil
Dec 03 to Aug 04	80%	81%	8	1.9%
Oct 04 to 29 Nov 05	59%	61%	15	6.4%
30 Nov 05[B] to June 06	72%	76%	20	8.2%

Notes

[A] This is the proportion of projects on which a Ministerial funding decision was taken in this period that had been recommended for funding by the department.

[B] The Ministerial Committee began making funding decisions at its 30 November 2005 meeting.

Source: ANAO analysis of DOTARS' records.

Changed procedures

101. From August 2006, the practices adopted by the Ministerial Committee in formal meetings were improved to include the recording of reasons for decisions taken at meetings (noting that some funding decisions are made outside of Committee meetings). In addition:

- in July 2007, the Ministerial Committee agreed to changes to the briefing material that will be provided to it by the department in seeking the Committee's decision on an application. The revised brief will now include explicit reference to the FMA Regulations and the approving Minister's obligations under Regulation 9. In circumstances where the Committee approves a project not recommended by the department, the revised briefing will advise the Ministers that it would be prudent to document a reason for the approval and any additional information considered; and

- in September 2007, enhanced procedures were approved by the Committee to manage potential conflicts of interest in respect to projects located in the electorate of a member of the Committee. The revised procedures state that copies of the departmental assessment will not be given to members of the Ministerial Committee when the project is in their electorate and that the minutes of the Ministerial Committee meetings will record when a Minister has abstained from the decision making process because the project is in their electorate.

102. There would be benefits in the financial framework being enhanced so as to require approvers to document the basis on which they have concluded that proposed expenditure represented efficient and effective use of public money. This is particularly important where the decision maker takes a different view from advice provided to them. The existing requirement under FMA Regulation 12 that approvers record the terms of an approval in writing does not adequately address this issue. While ANAO is supportive of such a change to the financial framework, it is recognised that this is a matter for the Finance Minister to consider, following advice from his department.

Assessment and approval of grants in a pre-election period (Chapter 2:3)

103. The first year of the Regional Partnerships Programme coincided with the final year of an election cycle, leading to the Federal election held on 9 October 2004. The writs for the election were issued on 31 August 2004, setting in train the caretaker conventions under which decisions on Regional Partnerships applications were generally suspended.

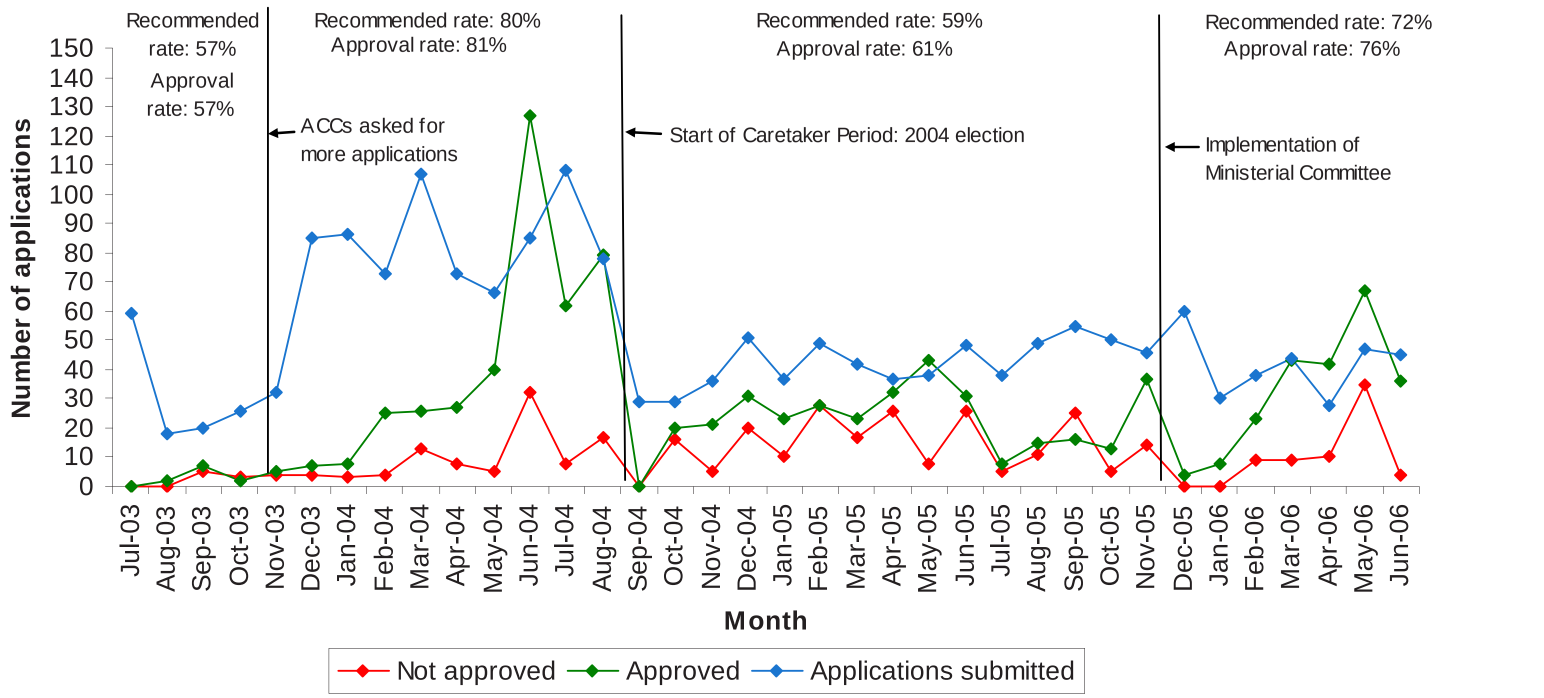
104. While the likely timing of a Federal election is often anticipated for some months prior to the Prime Minister calling it, executive administration continues in its normal course until the formalities establishing the caretaker period are in place. In this context, there is a potential for Ministerial decision-making during the period leading up to an election being called to attract perceptions that decisions have been influenced by political considerations.[48]

105. In the report of its inquiry, the Senate Committee raised concerns about the significant increase in grant approvals that occurred in the months preceding the 2004 election. This audit examined all funding decisions made in the first three years of the Programme to 30 June 2006 (the Senate Committee was only in a position to examine data provided to it by DOTARS relating to the first 18 months to December 2004), together with the related departmental assessments and ACC recommendations (data that was generally not available to the Committee). From ANAO's analysis, it is apparent that there was a significant increase in Programme activity in the lead-up to the calling of the 2004 Federal election (as illustrated by Figure 2).

[48] Grants approved in the period leading up to the calling of an election very often involve expenditure that will not be incurred until after the election. In those circumstances, compliance with the terms and requirements of the FMA Regulations provides a framework for regulating the decision-making process so as to provide transparency and accountability for the commitment of public money, as well as a requirement to promote efficient and effective use of the public money.

Figure 2

Regional Partnerships Programme application and approval trends: July 2003 to June 2006



Source: ANAO analysis of DOTARS data. Recommended rate represents the proportion of applications on which a decision was taken that DOTARS recommended be approved for funding. Approval rate represents the proportion of applications approved for Regional Partnerships funding by Ministers.

Increased rate of application for funding

106. One of the key contributing factors to the significant increase in the number of grant approvals in the lead-up to the calling of the 2004 election was that application activity during the nine month period from December 2003 to August 2004 was substantially higher than experienced in other stages of the Programme to June 2006.[49] The increased application activity during the period was, in large part, a consequence of the then Parliamentary Secretary and DOTARS asking ACCs to increase the rate at which applications were being submitted.

Reduced assessment times

107. Coinciding with this period of the highest rate of applications received was a significant decrease in the average time between the submission of applications and the Ministerial funding decision (see Figure 3).[50] The reduction in assessment times in the period leading up to the election, and resulting increase in the rate of funding approvals, was a result of:

- the then Parliamentary Secretary requesting in June 2004 that the department submit 100 projects for her consideration over a nine day period.[51] Despite average assessment times for individual applications increasing significantly after the 2004 election, there were not any further requests of this nature received by the department after the June 2004 request; and
- reduced scrutiny of projects as a result of truncated departmental assessments. This often occurred as a result of express requests from the Ministerial decision-maker or his or her Office that a particular application receive priority attention within a short timeframe. One

[49] During that period, applications were submitted at an average rate of 85 per month, which was twice the average monthly application rate of 42 experienced over the 22 months following the election to 30 June 2006. The applications submitted between December 2003 and August 2004 (25 per cent of the first 36 months of the Programme) accounted for 41 per cent of all applications over the full three years.

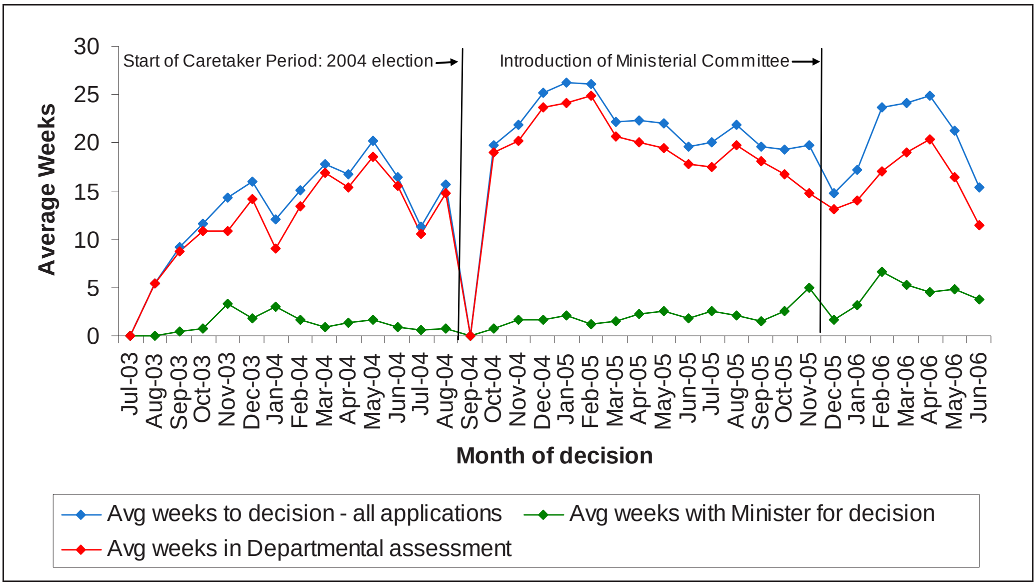
[50] The average time between application and Ministerial decision for the 70 decisions made in July 2004 was 11 weeks, which was the shortest average experienced since September 2003, three months after the Programme commenced, in which 12 funding decisions were made with an average assessment period of nine weeks. It represented a significant reduction from the average of 18 weeks for decisions taken in March 2004. The reduction in average assessment times in the period leading up to the election being called was even greater for approved projects, falling from 21 weeks for the 40 applications approved in May 2004, to 16 weeks for the 127 applications approved in June 2004 and, as noted, further reducing to 11 weeks for the 62 applications approved in July 2004.

[51] The then Parliamentary Secretary had requested that the department provide a list of all applications then being assessed, with the list to be provided by ACC, noting the electorate, bid amount and details as to whether the project was in Regional Office, National Office or with the ACC, to enable her to assess the existing backlog of Regional Partnerships applications.

consequence of the truncated assessment procedures has been that immature or ill-defined projects were approved for funding, leading to substantial delays in Funding Agreements being signed and further delays in project progress.

Figure 3

Average assessment and decision times: July 2003 to June 2006



Source: ANAO analysis of DOTARS data.

108. The sharp reduction in average assessment times in the period immediately preceding the election is further highlighted when considered in the context of the significantly longer assessment periods experienced for much of the nearly two years following the 2004 election, as illustrated in Figure 3.

Departmental recommendations for funding

109. It would be reasonable to expect that, as a consequence of seeking to have applications brought forward and assessed in a truncated timeframe, there would be an increased proportion of applications either:

- not being recommended for funding due to either a lower quality of application or a reduced capacity to undertake substantive due diligence inquiries; and/or
- being recommended for funding subject to conditions.

110. However, a feature that distinguishes the period between December 2003 and August 2004 from other periods of the Programme to 30 June 2006 is the high rate at which DOTARS recommended that applications be approved for funding. Specifically, of the projects for which a Ministerial funding decision was made between December 2003 and August 2004, DOTARS recommended that 80 per cent be approved for full or partial funding. This was a significantly higher recommended rate than was the case in any other period to 30 June 2006 (see Table 2).

111. By way of comparison, there was not a significant difference during this period in the proportion of departmental approval recommendations that were subject to recommended conditions. Specifically, over the three years to 30 June 2006, 37 per cent of departmental recommendations that funding be approved were subject to one or more recommended conditions. Despite the significantly higher rate at which the department recommended projects for approval in the period December 2003 to August 2004, the proportion of projects recommended for funding subject to conditions increased only marginally to 39 per cent.

Announcing grant approvals

112. A feature of the Regional Partnerships Programme is that, to assist in demonstrating that their application satisfies the local support aspect of the assessment criteria, applicants are encouraged to provide evidence of endorsement of their project from appropriate stakeholders. An important aspect in this context is the provision of letters of support from elected representatives, including the local Federal Member. Local Member support is viewed favourably in the assessment process, irrespective of the Member's political affiliation. However, when it comes to the public announcement of funding that is approved for a project, the approach differs depending on whether the local Federal Member is from a Coalition party.

113. The announcement of grants can be a sensitive issue at any time but especially in the lead up to an election. As noted, there was a significant escalation in the rate of grant approvals in the period leading into the 2004 election, including a number of grants approved on 31 August 2004 prior to the 5:00 pm commencement of the caretaker period. Notwithstanding the increased tempo of project approvals, there was a significant delay in announcing some of those grants, with the announcement being made well into the election campaign period.

114. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities.[52] Nevertheless, from a programme administration perspective, and as a matter of good practice, it is preferable for all decisions on approved or unsuccessful projects to be announced together, or within a relatively short period of time. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative sources of funding. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes.

115. A further issue relates to the practice of announcing funding approval without making reference to whether there are any conditions that must be satisfied before the funding will actually be provided. This is another area of heightened sensitivity during the lead-up to an election because such announcements can provide a political benefit without transparently identifying that, unless certain specified conditions are satisfied, the funding may not be provided.

116. In this context, it was a common practice under the Regional Partnerships Programme for funding to be approved for a project subject to certain conditions being subsequently satisfied. Specifically, of the 983 grants approved between July 2003 and June 2006, 397 (40 per cent) were approved subject to the funding recipient subsequently satisfying one or more funding conditions. However, on very few occasions did the public announcement of the grant make reference to the conditions attached to the funding approval.

Funding election commitments (Chapter 2:4)

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

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52 ANAO, *Better Practice Guide-Administration of Grants,* Canberra, May 2002, p.47.

Funding commitments made during an election campaign

118. Except where a Minister with the necessary authority has approved spending for the relevant project, party election policies and other election commitments announced during an election campaign represent undertakings to provide certain funding, services or facilities in the event the relevant party is elected or re-elected to government. Any use of public money to fulfil such political undertakings may only occur in accordance with the financial framework that governs the expenditure of funds from the Consolidated Revenue Fund, being:

- the availability of a valid appropriation at law; and
- satisfaction of the requirements of relevant legislation governing the expenditure of public money.

119. There were 38 Coalition election commitments made in the 2004 election campaign that were subsequently allocated to DOTARS to administer through the Regional Partnerships Programme. This comprised 36 specific projects and two broader measures. Additional Budget funding was provided through the 2004–05 Additional Estimates and 2005–06 Budget processes in relation to all election commitments allocated for administration through the Regional Partnerships Programme.

120. As part of the process of allocating election commitments to Ministerial portfolios for administration, departments are responsible for assessing, and providing early advice to Government on, whether commitments fit within existing programme arrangements. Where they do, the practice is that departments are able to manage the commitments within the framework of the existing programme. When they do not, it is important that Ministers are informed so that alternative options for delivering on, and funding, the commitments can be considered. In this context:

- ten of the election commitment projects allocated to Regional Partnerships had been the subject of a Regional Partnerships application (two of which had been withdrawn prior to being announced as an election commitment). DOTARS had yet to complete its assessment of any of these projects against the published Programme Guidelines and assessment criteria. Nevertheless, for a number of the projects, the assessment work that had been undertaken had identified one or more shortcomings. This position was not communicated to Ministers; and

- the department held no information on the remaining 26 projects prior to their announcement as election commitments. In terms of the allocation of these projects for administration within the Regional Partnerships Programme, the only information available to the department in the period following the election was media releases and election policy documents. Due to the broad nature of election commitment announcements, and the limited information contained in them in relation to the projects to which they relate, it was not possible from this material for DOTARS to determine whether projects proposed to be administered through the Regional Partnerships Programme fitted within the Programme Guidelines. However, the department did not communicate this situation to Ministers at that time.

121. During election campaigns, Ministers and other government and non-government candidates will announce party election policies and commitments. Nevertheless, the financial framework requires that any decision by a Minister or authorised official to approve the expenditure of public money to satisfy an election commitment following an election must be undertaken in a manner that considers whether the proposed expenditure represents efficient and effective use of public money. In this respect, legal advice provided to ANAO was that:

> Announcement of a grant as an election commitment would not obviate the requirement that the approver be satisfied of the matters referred to in regulation 9. There is no difference in the requirements according to who makes the commitment or when it is given. However, the caretaker convention may impact on the timing of any approval to give effect to the commitment.

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

123. However, in relation to a number of election commitment projects put forward for Ministerial approval of funding through Regional Partnerships, the department did not seek or obtain documentation from the funding recipient to substantiate aspects of the project such as:

- the proposed cost, scope and timeframe of the project;

- the nature and sustainability of the outcomes expected to be achieved and the quantum of funding being provided by the Commonwealth compared to other relevant stakeholders; and/or
- the value for money the project was likely to provide having regard to Programme benchmarks.[53]

124. This information is important so that the department is able to advise Ministers of any departures from the Programme Guidelines, and propose risk management strategies appropriate in the circumstances. Evidence of the continuing need to exercise diligence in relation to funding election commitments was evident from the existence of two instances in which, notwithstanding DOTARS recommending that the Ministers approve the full amount of funding announced in the relevant election commitment, a more cautious approach was taken by the Ministerial Committee to the approval of funding to support an election commitment.

Waiving eligibility and assessment criteria (Chapter 2:5)

125. Where assessment criteria are published for a grants programme, potential applicants may reasonably expect that only applications that satisfy those criteria will be considered for funding, with the discretion of the decision-maker being exercised in terms of judgements relating to the relative merits of compliant proposals. However, a feature of the Regional Partnerships Programme in its first three years examined by ANAO was the extent to which departmental assessments and/or Ministerial funding decisions, for certain applications, waived or failed to apply stated eligibility or assessment criteria.

126. Procedures to govern the waiving of criteria were articulated in respect to two areas, both of which were commented on by the Senate Committee.

127. The first area related to the Strategic Opportunities Notional Allocation (SONA) procedures. These procedures provided a basis for waiving Programme assessment criteria in order to approve funding for projects that were ineligible under the Programme Guidelines. In its November 2006 response to the Senate Committee report, the Government advised that the SONA procedures had not been used since August 2004 and it was considered

[53] For example, DOTARS' benchmarks for assessing the value for money of proposed project outcomes under the Regional Partnerships Programme include: where job creation is a focus, each ongoing full-time or equivalent job has been supported by less than $25 000 in grant funds; and where community infrastructure is a focus, the grant funds have been less than $1 000 for each likely user of the facilities. Source: DOTARS, *Regional Partnerships Guidelines*, July 2006, p. 11.

that special considerations such as those made under SONA procedures would no longer be required.

128. The second area related to the requirement for an applicant to have obtained all necessary statutory approvals and licences in respect to their project in order to be eligible for Regional Partnerships funding. In April 2004, the then acting Minister approved a relaxation of this requirement for community-based organisations or where the cost of applying for an approval or licence was a high proportion of the project costs, with the additional risks to the Commonwealth to be managed by including a provision in the Funding Agreement that no payments of Regional Partnerships funds would be made until the necessary approvals and licences were obtained. The benefit of this approach was that the controls to be adopted provided a balance to allow certain projects to be progressed whilst protecting the Commonwealth in that funding would not be provided until sufficient assurance had been provided to DOTARS that the project had the necessary approvals and licences to proceed. However, in the period examined by ANAO it was common for the approval requirements to be waived despite the project not satisfying the documented circumstances approved by the then acting Minister, and for the intended associated risk management procedures to be overlooked.

129. There have been other areas of Programme administration where, in the three year period examined, practices departed from eligibility and assessment criteria in a less transparent manner. In particular:

- like many grants programmes, the published Regional Partnerships Programme Guidelines state that projects seeking funding for retrospective costs are not eligible for Regional Partnerships funding. However, whilst this provision was adhered to for some projects, for others delineations were made between aspects of an integrated project in order to enable retrospective funding issues to be avoided;
- projects that were being substantively undertaken by an ineligible organisation (such as State Government) were approved for Regional Partnerships funding on the premise that the application was submitted by an eligible organisation (such as a Local Government Authority); and
- the Regional Partnerships Programme Guidelines stipulated that it would not fund a project that competed directly with existing businesses unless it could be demonstrated that there was an unsatisfied demand for the product or service, or the product or service

was to be provided in a new way. Funding has been approved for projects in circumstances where these matters were not adequately addressed.

Ministerial decision-making processes (Chapter 2:6)

130. Various reviews of the administration of discretionary grant programmes, including Parliamentary Committee inquiries and reviews and ANAO performance audits, have highlighted the importance of the procedures for the selection of successful applicants being formulated and documented in advance of any selection process, and being consistently and transparently applied. This assists in ensuring accountability and equity in the treatment of applicants, and in avoiding perceptions of bias or political interference.

131. The Regional Partnerships Programme procedures have not identified any guidelines in respect to the manner in which the Ministerial decision-maker(s) and/or their Offices will interact with applicants, local Federal Members of Parliament or the department in reaching a decision in respect to an application. Nor have procedures been articulated to provide for such interactions to be documented where they are significant to Ministerial consideration of individual grant applications. In this respect, some applicants and/or local Members have been provided with opportunities not generally available to meet with, or provide additional information to, the Ministerial decision-maker(s) during the assessment and decision-making process. While Ministers may find access to such information useful to inform their decisions, it is important that there be a clear understanding on the arrangements that will apply in circumstances where the assessment process is still active.

132. In proposing to the Prime Minister in October 2005 the formation of the Ministerial Committee and other changes to the operation of the Programme, the then Minister for Transport and Regional Services stated that the changes were to improve Programme effectiveness and address public criticisms. One aspect of the new processes not covered was the potential for a conflict of interest to arise where an application relates to a project to be undertaken in the electorate of a member of the Ministerial Committee. Specifically, in most cases, the relevant Minister has been listed as a recipient of the documented departmental assessment and funding recommendation on which the other members of the Committee may take an out-of-session decision. Where relevant projects had been referred to a formal meeting of the Ministerial Committee for decision, potential conflicts of interest were not explicitly recorded against each relevant project in the record of the meeting, and the meeting record did not address whether the relevant Minister participated in any discussion relating to the project (including whether the Minister excused himself from the Committee meeting for the period the project was being considered). In September 2007, the Ministerial Committee agreed to changed procedures to better manage potential conflicts of interest in decision-making involving projects in one of the Committee member's electorates.

Summary—Partnerships and Support (Part 3 of report)

Introduction—Partnerships and support

133. Since it commenced in July 2003, one of the key stated features of the Regional Partnerships Programme has been that applicants and their project partners (if any) are expected to make a financial contribution to the cost of the project. Accordingly, all applicants are expected to provide details of their contribution and the proposed contributions from any project partners. In addition, assessments provided to Ministers to inform the decision about whether to approve Regional Partnerships funding have typically included a departmental assessment as to whether the application satisfied the partnerships and support criterion.

134. Ministers have approved Regional Partnerships funding for a project on the basis of their consideration of the value for money to the Australian Government represented by a spending proposal that is based upon specified project outcomes being achieved through:

- a nominated quantum and proportion of Regional Partnerships funds; and
- identified cash and in-kind[54] contributions from specified other parties.

135. For projects approved to receive Regional Partnerships funding, DOTARS is responsible for addressing any conditions Ministers may have placed on the approval (which may relate to the partnership contribution arrangements) and preparing a Funding Agreement that reflects the approved spending proposal, including the partner co-funding arrangements endorsed by the responsible Minister(s). Through the Funding Agreement, DOTARS is also responsible for confirming the existence, amount, terms and conditions of all partner contributions; monitoring any changes in the contribution arrangements of any partners; and, when the project has been completed, obtaining a financial acquittal for all project costs and all sources of funding for these costs. The department also undertakes evaluations of the performance of the Regional Partnerships Programme in attracting partnership contributions,

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[54] The Programme Guidelines define in-kind contributions as products or services provided to the project that have an intrinsic value, but are not provided as direct cash or financial support. Examples include volunteer labour and the use of an office at no charge (the value of the rent not charged would be an in-kind contribution).

with this information being published as an important indicator of the success of the Programme.

Audit conclusions—Partnerships and support

136. Similar to a number of Commonwealth grants programmes, the Regional Partnerships Programme seeks to only fund a proportion of the costs of approved projects, with the applicant and/or other parties being expected to make financial and/or in-kind contributions. This reflects the focus on a partnership approach to regional development set out in the Government's *Stronger Regions, A Stronger Australia* Statement of August 2001. In this context, obtaining and assessing accurate and complete information on proposed partner contributions is an important element in promoting achievement of the policy objectives underpinning the Regional Partnerships Programme. Similarly, there needs to be an emphasis on the effective management (through the Funding Agreement) of partner funding arrangements for approved projects.

137. Since the commencement of the Programme, documented guidance and procedures have existed for the assessment, confirmation and management of partnership contributions. The revised Programme Guidelines developed and issued in July 2006, as part of the suite of changes to the Regional Partnerships Programme announced by the then Minister for Transport and Regional Services in November 2005, included the clarification of assessment criteria and the provision of more detail on the type of information needed for a project to have the best chance of success.[55] In addition, each version of the Programme Guidelines has been supported by an Internal Procedures Manual.

138. One benefit of having in place documented internal procedures that support published Programme guidance is to give confidence that consistent standards of administration will be adopted. This is particularly important for programmes that involve assessments for grants funding, due to the importance of applicants being treated equitably. However, a major shortcoming in the administration of this Programme by DOTARS was the frequency with which departures occurred with respect to the published Programme Guidelines or documented internal procedures. In particular:

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55 The Hon Warren Truss MP, Minister for Transport and Regional Services, *New Guidelines for Regional Partnerships Take Effect*, Media Release 142WT/2006, 25 August 2006.

- insufficient information on partner co-funding had been obtained from applicants, either with their application for funding or during the assessment process;
- assessments of the existence, amount and relevant terms and conditions of nominated partner contributions were not rigorous;
- partnership arrangements did not demonstrate value for money either through:
  - the Regional Partnerships Programme funding the majority of project costs; or
  - funds being provided for projects that were proceeding irrespective of whether a contribution was provided by Regional Partnerships;
- the department had not confirmed nominated partner contributions, including:
  - instances where Ministers had approved Regional Partnerships funding subject to confirmation of co-funding[56]; and
  - circumstances where confirmation of partner co-funding was specified in the Funding Agreement as a precondition to the payment of Regional Partnerships funds or as a project milestone;
- unreliable and/or incomplete information had been used to 'confirm' partnership contributions;
- DOTARS had made payments of Regional Partnerships funding before any confirmation of co-funding was obtained (reducing the risk-management value to be obtained from confirming partner contributions). In a number of projects examined by ANAO, the risks inherent in this approach have been realised, as reflected by expected co-funding not eventuating;
- Funding Agreements had not reflected the partner funding arrangements that underpinned the basis of the Ministerial decision to approve Regional Partnerships funding;

[56] Specifically, DOTARS did not take effective action to give effect to the conditions of Ministerial funding approval in respect to 13 (22 per cent) of the 58 projects in ANAO's sample that were approved subject to confirmation of co-funding.

- Regional Partnerships funding had been fully paid for approved projects without the funding recipient being required to meet its contractual obligation to acquit all project costs and all sources of funding for those costs; and
- reporting on partnership outcomes overstated the success of the Programme in attracting and/or securing partner co-funding.

139. Given the importance of partnership funding to the Regional Partnerships Programme, the extent of the above administrative deficiencies has put at risk the achievement of Programme objectives. The frequency with which departures occurred from the published Programme Guidelines or documented internal procedures in this area during the period examined by ANAO does not give confidence that applicants were treated equitably; or that conditions required by Ministers as part of their approval of Regional Partnerships funding were implemented; or that Funding Agreements were effectively managed.

Improvements to Programme administration

140. During the course of the audit, in response to audit findings, DOTARS substantially re-engineered its application, assessment and Funding Agreement management processes including as they relate to partner co-funding. This has been reflected in a revised application form, a new suite of internal procedures, training of staff and revisions to the Long Form Standardised Funding Agreement used for most Regional Partnerships funded projects. Most of these improvements took effect from July 2007, with the revised Long Form Standardised Funding Agreement being released for use at the end of August 2007 (after training had occurred throughout July 2007 and the first half of August 2007).

141. In addition, in May 2007 the department obtained a delegation from Ministers to approve minor project variations requested by funding recipients after the Ministerial Committee has approved funding. This was the first such delegation provided to the department by Ministers under the Programme. In respect of proposed changes to partner funding, the delegation only operates in circumstances where the total level of partner contributions remains within the relevant percentage specified in the Programme Guidelines since July 2006.

142. In July 2007, DOTARS advised ANAO that the improved procedures are being supported by staff training, as follows:

The Department is undertaking extensive staff training on managing/monitoring of contractual agreements; relationship management and contract administration; principles of good contract management; assessing risk; drafting and managing a Regional Partnerships Funding Agreement; analysing Regional Partnerships progress and post activity reports; and finalising a Funding Agreement.

Regional Partnerships application assessment training for National Office assessors is planned to commence in July 2007 with a module on the Procedures Manual – Section 4: Application Assessment. Further application assessment training is planned for delivery in September/October. This training aims to improve assessment skills for Regional Partnerships assessors. The training proposes to cover the following areas:

- Assessors component of the new e-Grants system
- Financial viability assessment and budget and financial analysis for assessors, covering:
  - understanding and incorporating the financial viability assessment in an assessment
  - analysing the budget information and project expenses provided with the Regional Partnerships application as part of the assessment process
  - analysing financial information provided in the Regional Partnerships application
- Completing a Regional Partnerships assessment covering:
  - understanding and applying all of the Regional Partnerships assessment criteria when completing assessments for Regional Partnerships
- Probity, record keeping and documenting decisions.

143. DOTARS' advice to ANAO and the supporting information on Programme improvement initiatives has been taken into account in preparing this report. In this respect, ANAO has made four audit recommendations in this part of the audit report to assist the department in further improving its assessment and management of partnership contributions.

Key Findings—Partnerships and Support

Partnership assessment framework (Chapter 3:2)

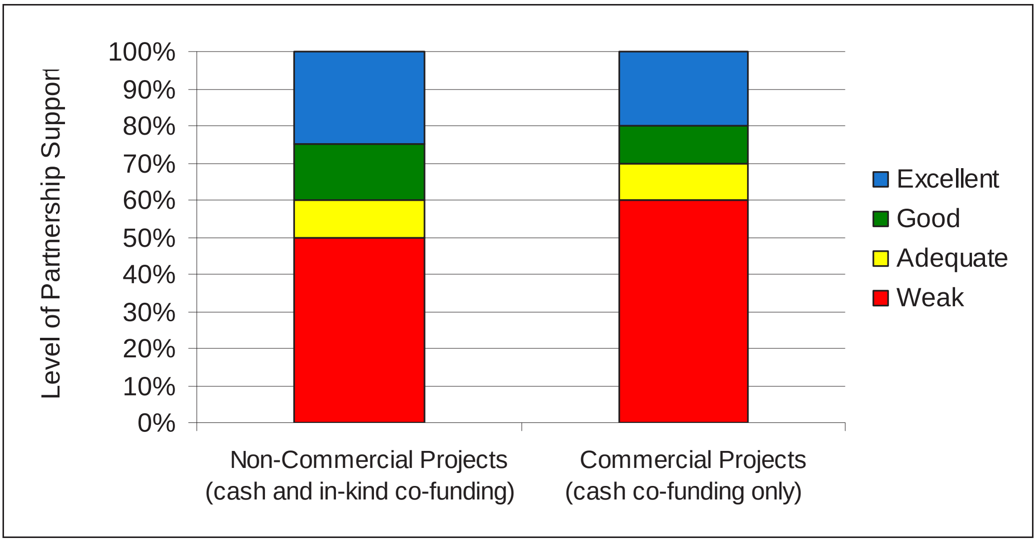
144. Since the commencement of the Regional Partnerships Programme, an important aspect of the assessment of applications provided to Ministers by DOTARS has been an assessment as to whether the partnerships and support criterion was satisfied, together with a rating of the strength of partnerships support as weak, adequate, good or excellent (or some variation thereof). In addition, some assessments undertaken in the first three years of the Programme included advice as to whether it was considered that all key partners were represented and whether their contribution was considered appropriate to the benefit they would receive from the project.

145. The extent to which the Programme was expected to contribute to the cost of projects approved for funding varied considerably. In some instances, Regional Partnerships was expected to contribute a relatively small amount (less than 10 per cent) of the overall project costs. However, it has been commonplace for Regional Partnerships to be the single largest contributor of cash to a project. This was the case in respect to 496 (51 per cent) of 981 individual projects approved to 30 June 2006. The remaining project costs were often funded through a variety of sources, such that the individual contributions of other partners were considerably lower than that of the Australian Government. In respect to 238 projects (representing 24 per cent of all approved projects to 30 June 2006), the Regional Partnerships Programme was approved to be the single largest cash contributor, with the next highest contributor providing 25 per cent or less of total cash to the project.

146. Between the commencement of the Programme in July 2003 and June 2006, the published Programme Guidelines provided relatively limited information to potential applicants and other interested parties on the way in which applications would be assessed against the partnerships and support criterion. In this respect, one of the improvements made to the administration of the Programme was the inclusion in the July 2006 version of the Programme Guidelines of significantly enhanced guidance on this aspect. As illustrated by Figure 4, this is provided by the Programme Guidelines identifying the varying percentages of minimum partner contributions that will be expected for commercial and non-commercial projects, and the rating of partnership funding support that particular levels of partner contributions will attract (ranging from 'weak' to 'excellent').

Figure 4

Expected levels of partnership support: assessment of applications—July 2006 Programme Guidelines



Source: ANAO analysis of Regional Partnerships Guidelines, July 2006.

147. In June 2007, DOTARS advised ANAO that the enhanced guidance included in the July 2006 Programme Guidelines regarding the percentage of partner contributions that will be expected is a guide only, rather than being an absolute requirement. DOTARS further advised that Ministers retain the discretion to approve projects that are outside the percentages included in the Guidelines, should they deem this appropriate. In such circumstances, there is a role for the department to advise Ministers on the risks that 'weak' partnership arrangements may present to the particular project, and any broader Programme implications.

148. In addition, the partner co-funding percentages included in the Programme Guidelines perform an important role with respect to the delegation provided in May 2007 by the Ministerial Committee for DOTARS to approve minor variations requested by funding recipients after the Committee has approved funding. Specifically, in respect to proposed changes to partner funding, the delegation is only able to be exercised in circumstances where:

- the level of partnership contributions at the time of the Ministers' approval is 50 per cent or more of total project costs for non-commercial projects and 60 per cent or more of cash costs for commercial projects; and

- any subsequent changes do not reduce the level of partnership contributions below 50 per cent of total project costs for non-commercial projects and 60 per cent of cash costs for commercial projects.

149. In this context, DOTARS' advice that the percentages are a guide, rather than absolute, means that the Programme Guidelines do not provide a clear set of limits to support the operation of the delegation. The potential for the delegation to improve the efficiency of Programme administration is also reduced as, in circumstances where Ministers have approved a project that involves partnership contributions below the 50 per cent of total project costs for non-commercial projects and 60 per cent of cash costs for commercial projects, any subsequent changes, irrespective of their significance, will require further consideration by Ministers.

Improvements to assessment procedures

150. In terms of assessment procedures, each of the five versions of the Internal Procedures Manual that were in place from the commencement of the Programme up to and including June 2007 included internal guidance on analysing applications against the partnerships and support criterion. There had been few changes to these procedures over the nearly four years to June 2007.

151. Adherence to the documented assessment procedures for partner contributions has been less than adequate. For many applications, the only information held by the department to inform its assessment of partner contributions were the statements made by the applicant in the application form originally submitted.

152. In response to the audit findings, improvements are proposed in this area. Specifically, a draft revised Internal Procedures Manual provided to ANAO by DOTARS in June 2007 included analytical procedures consistent with those set out in the prior version but the Manual had been restructured in a way that can be expected to promote greater attention to rigorous and consistent assessment of partnership funding for Regional Partnerships applications. The inclusion of checklists that assessors would be required to complete relating to the partnerships and support criteria was a useful initiative.

153. Other positive changes to be implemented from 1 July 2007 were:

- a new on-line application form would request applicants to include with their application supporting documentation regarding nominated partner contributions. This had not been required previously. The revised approach will be consistent with that taken in some other Commonwealth grants programmes, as well as that adopted for other parts of the Regional Partnerships application process.[57] It can be expected to improve the efficiency and effectiveness of assessments against the partnerships criterion;
- the development of procedures (combined with training of departmental assessors) so that greater emphasis is given to the assessment of nominated in-kind partner contributions in order to promote greater consistency and rigour in this aspect of departmental assessments. These changes include assessors requiring, as a risk mitigation measure, an acceptable method of accounting for in-kind contributions where such contributions form a significant component of partner contributions. ANAO had noted that this was an area in which improvement was needed, particularly with respect to projects where land was a nominated in-kind contribution; and
- changed procedures that require assessors to rate a project as either satisfying or not satisfying the partnerships and support criteria (which are now to be separately assessed). This change addresses the past practice of some projects being assessed as 'partially' satisfying the criterion, despite such a rating, and its implications for the overall funding recommendation, not being contemplated in the documented Programme Guidelines and internal procedures. This practice, first developed in the months leading up to the 2004 Federal election, resulted in projects that would ordinarily be considered as having secured insufficient partner co-funding being recommended and approved for Regional Partnerships funding.

Assessing the quantum of partner funding (Chapter 3:3)

154. Since March 2004, departmental assessments of projects have been expected to assess the level of co-funding proposed in applications against internal guidance, with different expectations being set for commercial and

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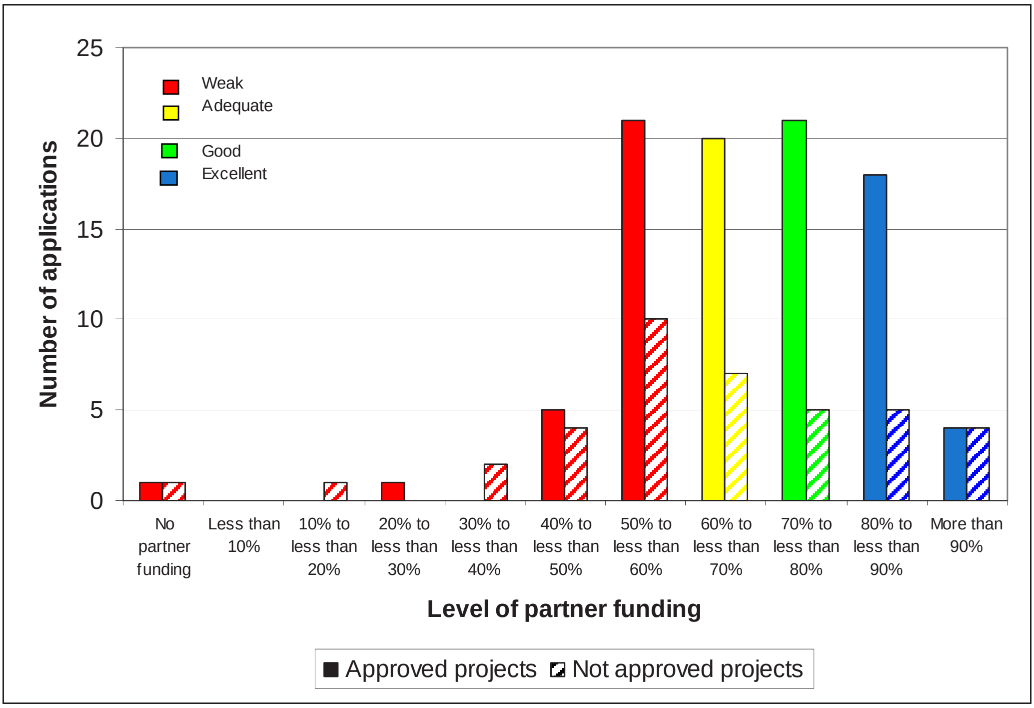
[57] For example, applicants were already asked to provide evidence to support any formal statutory approvals provided by the relevant Local Government Authority, as well as letters of support that demonstrated community support for the project.

non-commercial projects. Similarly, the revised July 2006 version of the Programme Guidelines advised applicants that, in assessing projects against the partnerships and support criterion, different levels of co-funding were expected according to whether the project was commercial or non-commercial in nature (regardless of the type of entity making the application).

155. There were relatively few non-commercial projects in the audit sample that were approved for funding between July 2003 and June 2006 where the partner co-funding was less than the minimum included in the documented internal procedures. However, for commercial projects approved in this same period, it was not unusual for DOTARS' project assessments to advise Ministers that the partnerships and support criterion had been satisfied notwithstanding that the level of partner funding was below the minimum level for such projects set out in the applicable Internal Procedures Manual. As illustrated by Figure 5, shortcomings in departmental assessments of the level of partner funding against the standards specified in the Internal Procedures Manual for commercial projects were reflected in 42 per cent of commercial projects in ANAO's sample being approved for Regional Partnerships funding despite having a 'weak' amount of co-funding (in that the applicant and other partners were contributing less than 60 per cent of project cash costs).

Figure 5

Partnership support for commercial projects in the audit sample



Source: ANAO analysis of DOTARS project assessments provided to Ministers.

156. The July 2006 Programme Guidelines also reflected an important change to partnership expectations for commercial projects. Specifically, from that time, nominated in-kind contributions for commercial projects were to be excluded from assessments of the quantum of required partner co-funding. That is, commercial projects were now expected to have cash co-funding of at least 60 per cent of total project cash costs. Having regard to previous difficulties experienced by DOTARS in relation to accurately assessing proposed in-kind contributions to commercial projects, this change should assist to improve the rigour and reliability of departmental assessments of the adequacy of proposed partner funding for commercial projects. This should also reduce the potential for undue risk to be transferred to the Commonwealth.

157. A threshold issue to be addressed in applying the expected levels of partnership support documented in the Programme Guidelines (see Figure 4) to assessing the quantum of partner funding is to discriminate between commercial and non-commercial projects. DOTARS has typically classified projects according to whether they were expected to operate profitably. Profit expectations are an important indicator of whether a project is commercial in nature. Nevertheless, a singular focus on expected financial results represents a narrow approach to a more complex issue. Specifically, commercial projects are typically seen as those that will operate in the marketplace seeking to generate revenue through the receipt of commercially-based fees or other charges. In addressing this issue, in July 2007 DOTARS advised ANAO that it had updated the Internal Procedures Manual to broaden the definition of a commercial project; it was seeking Ministerial Committee approval to adopt a similar change in the Programme Guidelines; and that the updated Regional Partnerships application form requires applicants to identify in their application whether the project involves a commercial activity.

Regional Partnerships asked to contribute a negligible amount to project costs

158. In administering partnership requirements, the focus is often on maximising the contributions from other partners in order to achieve a high degree of ‘leverage’ from Commonwealth funding. However, this should be balanced by a recognition that a high ratio of partnership contributions to Commonwealth funding can raise questions about the importance of the Commonwealth’s contribution to the project proceeding and, consequently, the value for money that would be derived from making such a contribution.

159. There were 22 projects approved in the three years to 30 June 2006 where the Regional Partnerships Programme was assessed as providing less than 10 per cent of the project cash costs. Seven of these were included in the audit sample. There were a further 78 projects where the Regional Partnerships Programme was assessed as providing between 10 per cent and 20 per cent of project cash costs. Of these, 19 were included in the audit sample.

160. For the projects in the audit sample, in some instances the Regional Partnerships funding was sought for a specific element of the project because the existing funding sources were said to be incapable of funding a shortfall in project costs and/or an extra element of the project had been identified after other funding had been obtained.

161. There were also instances in the audit sample where it was evident that the project was likely to proceed regardless of whether the relatively small proportion of project costs being sought from the Regional Partnerships Programme was provided. In these circumstances, ANAO’s Administration of Grants Better Practice Guide suggests that value for money to the Commonwealth be promoted by establishing a trigger to identify projects warranting further investigation because of the high ratio of partnership funding to Commonwealth funding.[58] Such analysis enables agencies to advise the Ministerial decision-maker as to whether the project is likely to proceed without Commonwealth funding and, if so, what additional outcomes (if any) would be achieved solely through the contribution of the Commonwealth funds.

Confirming co-funding (Chapter 3:4)

162. Confirming the existence of the co-funding proposed by applicants, its terms and any related conditions is an important function where grants programmes seek to only contribute to projects that have, or will obtain, contributions from other sources. For the Regional Partnerships Programme, such confirmation may be sought as part of the assessment of projects; as a condition of the approval of funding by the Ministerial decision-maker; and/or during the management of the Funding Agreement. In this context, there are benefits for the efficiency of Programme administration from DOTARS closely scrutinising and, where possible, confirming partner contributions prior to finalising its project assessment and recommendation as to whether Regional Partnerships funding should be approved.

Confirmation during the assessment phase

163. The Regional Partnerships application form has required an applicant to identify each entity that it expects to contribute to the project costs, the quantum each will contribute and to tick a box indicating the status of each proposed contribution. Since the commencement of the Programme, the Internal Procedures Manual has required assessors to address the status of nominated partner contributions and to give consideration to whether these should be verified or confirmed. However, it has been commonplace for assessors not to confirm the co-funding proposed by applicants during the assessment phase. This is evident, for example, from the high proportion of projects that were approved between July 2003 and June 2006 subject to co-funding being subsequently confirmed. In this respect, of 981 individual projects approved for funding in the first three years of the Programme, 263 (27 per cent) were approved by the Ministerial decision-maker subject to later confirmation of co-funding.

164. In some instances, it is not possible to confirm co-funding prior to completing the assessment due, for example, to the outcome of applications to

58 ANAO Better Practice Guide—Administration of Grants, op. cit., paragraph 2.17, p. 44.

other grants programmes not having yet been decided. However, in other cases, documentation confirming co-funding was available at the time of assessment, but not obtained by the department. Further, in other cases where some confirmatory work was undertaken, it focused on the quantum of possible funding without addressing whether there were any terms or conditions attached to the contribution that were relevant to the administration of the Regional Partnerships funding.

165. These shortcomings were addressed in the revised Internal Procedures Manual that took effect from July 2007 through a greater emphasis being given to the confirmation of partnership contributions during project assessments, including obtaining substantiating documentation. The implementation of various checklists should also provide greater assurance that these procedures will be implemented.

Projects approved subject to confirmation of partner funding

166. Consistent with the results of ANAO's analysis of all funding decisions made to 30 June 2006, there was a high proportion of projects in the audit sample that were approved for Regional Partnerships funding subject to subsequent confirmation of co-funding. Specifically, 59 (30 per cent) of the 194 approved projects in the audit sample were approved for Regional Partnerships funding conditional on some or all co-funding being later confirmed. ANAO's analysis focused on the 53 of these projects that had a Funding Agreement in place at the time of audit fieldwork.[59]

167. Notwithstanding Ministers having approved funding subject to the subsequent confirmation of co-funding, there was a high proportion of projects in the audit sample (22 per cent) where DOTARS did not take action to confirm co-funding. This included instances where confirmation was obtained for some, but not all, of the funding from other partners that had been included in the project assessment provided to the Ministerial decision-maker. It also included instances where there was no evidence of the department taking any steps to make confirmation of partner co-funding a condition of the Funding Agreement (either as a pre-condition to receiving Regional Partnerships payments or as a project milestone).

168. Where steps were taken to confirm co-funding, there was considerable variability in the approach adopted. In some instances, co-funding was

[59] For five projects, a Funding Agreement was not in place at the time of audit fieldwork. For one project, the then Parliamentary Secretary had subsequently waived the condition requiring confirmation of co-funding.

confirmed prior to the Funding Agreement being signed. However, notwithstanding the effectiveness of such an approach in managing risks, this approach had not been taken since the middle of 2004. In recent years, it has been more common for DOTARS to draft and sign the Funding Agreement such that confirmation of co-funding is:

- a pre-condition to the payment of Regional Partnerships funds; or
- a milestone within the Funding Agreement.

169. The greater risks inherent in this approach had been exacerbated by DOTARS making payments of Regional Partnerships funds in circumstances where the pre-condition or milestone had not been met. In a number of projects examined by ANAO, the risks had been realised, as reflected by expected co-funding not eventuating.

170. In response to ANAO findings in this area, the revised Internal Procedures Manual provided to ANAO in May 2007 included a strong emphasis on confirming partnership funding where this is a condition of the Ministerial decision to approve Regional Partnerships funding for a project. This should assist to address previous deficiencies in this area of the administration of the Regional Partnerships Programme.

Confirming co-funding as part of Funding Agreement management

171. Irrespective of whether or not a Ministerial funding approval is expressed as being conditional upon some or all partner funding being subsequently confirmed, the Long Form Standardised Funding Agreement used for most Regional Partnerships projects has included a standard requirement relating to confirming the amounts, due dates, terms and conditions of co-funding within 20 business days of the Funding Agreement being signed.

172. However, in the three years examined by ANAO, the value of these clauses as an effective means of confirming partner contributions and, thereby reducing risks to the Commonwealth, had been circumvented by:

- DOTARS' practice of drafting the Funding Agreement such that a significant proportion of approved funding was paid in the first instalment, usually shortly after the Funding Agreement had been signed (and therefore before the 20 business day period had expired). In this respect, half or more of total Regional Partnerships funding was paid in the first instalment for 83 per cent of projects in ANAO's sample where a Funding Agreement had been entered into by the completion of audit fieldwork;

- a high level of non-compliance with the requirements of the Funding Agreement. Specifically, for 54 (30 per cent) of the 180 projects in the ANAO sample that had proceeded to the stage of having a Funding Agreement signed, DOTARS did not require funding recipients to comply with the requirement that they confirm cash co-funding[60] where this had not already been obtained prior to the Funding Agreement being signed; and
- low standards in terms of the quality of evidence accepted by DOTARS as confirmation of co-funding. For example, the Funding Agreement requires that the confirmation be in writing, but DOTARS has accepted verbal assurances from applicants about their contributions and those of other parties. Where written confirmation was obtained, in the period examined by ANAO, DOTARS had often relied upon assurances provided by applicants about contributions from third parties, rather than direct confirmation from the other party (either to or through the applicant).

173. DOTARS has advised ANAO that these issues are being addressed through the revised Internal Procedures Manual, changes to the Long Form Standardised Funding Agreement and staff training.

Funding Agreement management (Chapter 3:5)

Incorporating partner contributions into the Funding Agreement

174. The Long Form Standardised Funding Agreement provides an effective means through which DOTARS is able to manage partnership contributions to an approved project. However, for the period examined by ANAO, DOTARS did not have effective procedures in place to include in the Funding Agreement the partner contributions that formed the basis of Ministerial approval of Regional Partnerships funding for projects and, where changes have been necessary, seeking Ministerial approval. Specifically, of the 180 projects in ANAO's sample, there were 47 projects (26 per cent) where the executed Funding Agreement did not reflect the partner cash funding

[60] ANAO's analysis included cash contributions only due to many Funding Agreements not including monetary values for the in-kind contributions proposed in the application and assessment provided to the Ministerial decision-maker.

arrangements that underpinned the Ministerial decision to approve Regional Partnerships funding. Of these:

- 33 projects had Funding Agreements specifying applicant and other partner contributions less than the amount that formed the basis of Ministerial approval, involving an aggregate reduction in partner co-funding of $13 531 063; and
- 14 projects had Funding Agreements specifying applicant and other partner contributions greater than the amount that formed the basis of Ministerial approval, involving an aggregate increase in partner co-funding of $1 435 161.

175. Consequently, over one quarter of the Funding Agreements in ANAO's sample did not reflect the partnerships funding arrangements that contributed to the basis of the Ministerial funding approval. As illustrated by Table 3, the net fall in partnership contributions between Ministerial approval and Funding Agreement was more than $12 million (11 per cent). In other instances, changes were made to the identity of the funding partners.

Table 3

Summary of proposed, approved and contracted cash contributions for 180 projects in ANAO's sample with a Funding Agreement

Funding Partner	Proposed in application, as reflected in departmental assessment	Approved by Ministerial decision-maker	Specified in signed Funding Agreement
Regional Partnerships	$35 732 916	$34 289 548	$34 119 716
Applicants and other partners	$105 109 241	$105 715 109[A]	$93 618 707
Total cash	**$140 842 157**	**$140 004 657[B]**	**$127 738 423**
Regional Partnerships as percentage of total	25%	24%	27%
Ratio of other contributions to each dollar of Regional Partnerships funding	$2.94	$3.08	$2.74

Notes:

[A] Increased contribution required from other partners due to partial approval of Regional Partnerships funding for 15 projects.

[B] Reduction in total cash contribution of $837 500 due to reduction in project scope (and required contribution from other parties) for three projects.

Source: ANAO analysis of project assessments and Funding Agreements.

176. There were various reasons for the cash co-funding included in Funding Agreements differing from that approved by the Ministerial decision-maker(s). These included the correction of errors that had been included in the assessment put forward for Ministerial consideration by DOTARS; post-approval confirmation deficiencies; changes made to the project after funding was approved; and errors by DOTARS in the preparation of the Funding Agreement.

177. Similar shortcomings were evident in relation to in-kind contributions. In this respect, of the 180 projects in ANAO's sample where a Funding Agreement was in place at the time of audit fieldwork, 142 (79 per cent) had been approved on the basis of a project assessment that identified one or more in-kind contributions to the project. However, the Funding Agreements for 80 of these 142 projects (56 per cent) included in-kind contributions that differed from the arrangement advised to the Ministerial decision-maker at the time Regional Partnerships funding was approved. These differences reflected, amongst other things, significant variability in practice in terms of whether the assessed value for the nominated in-kind contribution was included in the Funding Agreement. Specifically, for 44 of the projects approved on the basis of one or more in-kind contributions, no value for such contributions was included in the Funding Agreement.

178. In December 2006, DOTARS advised ANAO that it had re-emphasised the need for partner contributions to be incorporated into the Funding Agreement in the revised Internal Procedures Manual then under development. Consistent with this advice, the relevant sections of the revised Internal Procedures Manual issued to departmental staff in May 2007 provided a stronger administrative framework to promote effective contracting for the partner contributions endorsed by the Ministers when approving Regional Partnerships funding for projects. Improved administration in this area will be influenced by the extent to which the revised procedures are consistently implemented.

Acquitting actual partner cash contributions

179. Reflecting the partnership nature of the Regional Partnerships Programme, funding recipients have been required by the Long Form Standardised Funding Agreement to provide a financial acquittal that includes:

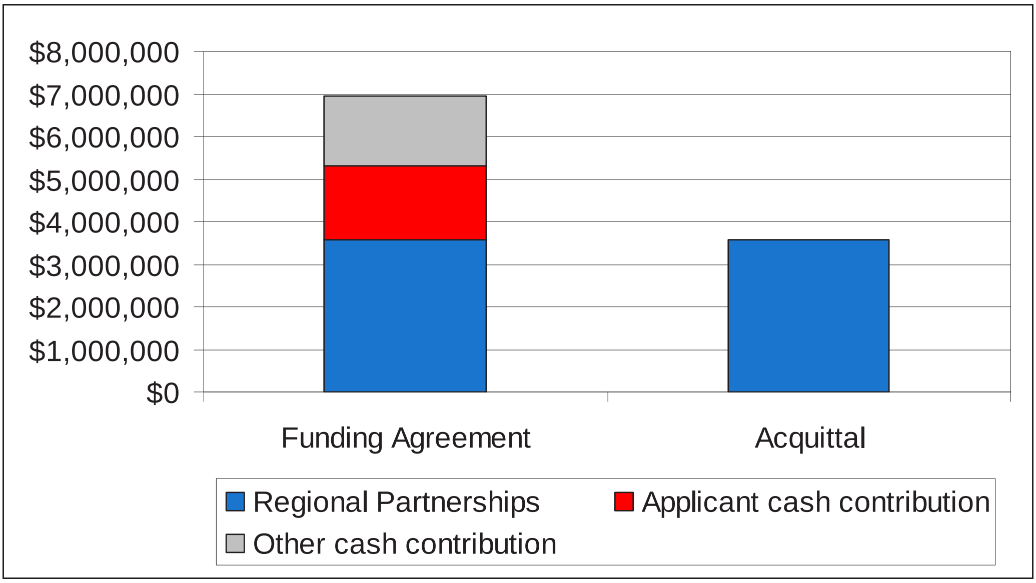
- an audited detailed statement of receipts and expenditure in respect of Regional Partnerships funds and all other contributions;
- an audited statement that the Regional Partnerships funding and other contributions were expended for the purposes of the project and in accordance with the Funding Agreement; and
- a certificate from the funding recipient that all Regional Partnerships funding and other contributions were expended for the purposes of the project and in accordance with the Funding Agreement.

180. ANAO's sample included 86 projects where the project had been completed and acquitted to DOTARS' satisfaction. However, in 19 instances (22 per cent), DOTARS had not obtained a detailed statement of project receipts and expenditure, including identifying all realised partnership contributions. In this context, as illustrated by Figure 6, effective administration of financial acquittals has not been a consistent feature of the administration of the Programme. In these circumstances, DOTARS:

- had not administered the respective Funding Agreements in a manner that demonstrated that the project was delivered in accordance with the partnership arrangements specified in the Funding Agreement;
- had been unaware that some projects have been completed significantly under-budget, with the applicant retaining all cost savings (thereby altering the balance of contributions)[61]; and
- had not been well placed in its Programme evaluations to undertake reliable analysis of Programme partnership and other outcomes.

Figure 6

Audited projects where DOTARS did not require that actual partnership contributions be accounted for in the accepted project acquittal



Source: ANAO analysis of DOTARS records.

181. DOTARS has recently developed revised internal procedures that include a requirement for increased emphasis to be given by departmental staff to obtaining a financial acquittal that identifies all project costs and all sources of funding for those costs, as well as confirming the partnership contributions specified in the Funding Agreement. In addition, DOTARS has developed a Regional Partnerships reporting pack which includes forms for funding recipients to use in providing the financial and other acquittals

[61] In some instances, these savings have been considerable. For example, one project that is the subject of an ANAO case study, RP01101 Beef Australia 2006, involved a potential surplus of nearly $1.7 million based on the financial information provided to DOTARS by the funding recipient.

required of them, including separate forms for acquitting Regional Partnerships funding and partnership cash contributions to the project.

182. The revised procedures and development of the reporting pack are positive developments towards more effective administration of project acquittals. However, ANAO's analysis, based on examination of the projects included in the audit sample, is that separate acquittal of Regional Partnerships funding from other partner funding will not be possible for a significant proportion of Regional Partnerships projects. Specifically, it is often the case that the Regional Partnerships funding is combined with other partner funding to assist with meeting the overall costs of the project, or elements thereof. In circumstances where the project or elements of the project to which Regional Partnerships funding is contributing are not easily divisible, funding recipients will find it difficult to accurately attribute both the quantum and timing of expenditure between Regional Partnerships funding and other funding sources.

183. On 30 July 2007, DOTARS provided ANAO with an amended reporting pack which included a requirement for funding recipients to identify the purpose for which other contributions had been received and expended. However, experience indicates that some funding recipients may still encounter difficulties in accurately attributing, and separately acquitting, the cost of jointly funded cost items between Regional Partnerships and other contributions. Further, the approach of separate acquittal adopted under the reporting pack may enable funding recipients to attribute costs associated with jointly funded cost items to Regional Partnerships before attributing costs to the contributions required from themselves and/or other partners.

184. In addition, there were no clauses in the existing Long Form Standardised Funding Agreement or the revised Long Form Standardised Funding Agreement (released for use from 27 August 2007) that explicitly addressed the sharing of any cost savings.

Acquitting actual in-kind contributions

185. In-kind partner contributions represented a relatively minor contribution for the majority of projects in the audit sample. However, there were 22 applications (eight per cent) where in-kind contributions represented half or more of the total project budget advised to the Ministerial decision-maker. Of those, nine were approved for Regional Partnerships funding.

186. There have also been instances where the in-kind contribution was not identified by the applicant or DOTARS as representing a significant proportion of project costs, but was nevertheless an important factor in the Ministerial decision to approve funding (including in instances where the department had recommended that funding not be approved).

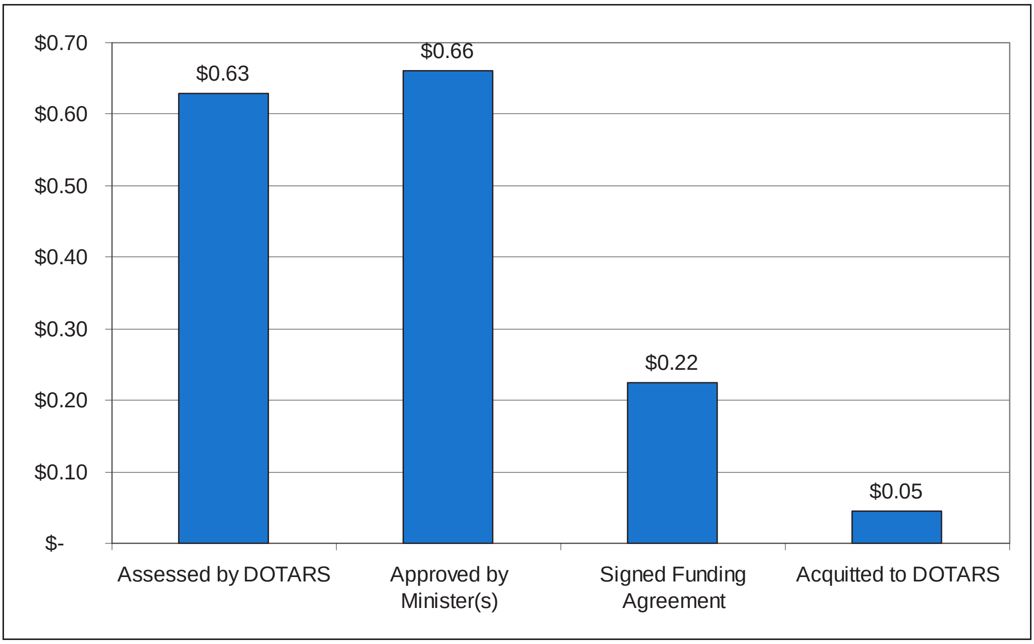
187. The partner contribution acquittal requirements outlined in the Long Form Standardised Funding Agreement used for the first four years of the Programme made no distinction between cash and in-kind partner contributions. However:

- as noted, it has been common for in-kind contributions that were advised to the Ministerial decision-maker to not be specified and/or quantified in the Funding Agreement; and
- where in-kind contributions were included and quantified in the Funding Agreement, it was common for these to not be acquitted by the funding recipient.

188. Figure 7 illustrates the effect of these administrative practices.

Figure 7

Ratio of in-kind partner contributions to each $1 of Regional Partnerships funding



Source: ANAO analysis of projects in the audit sample completed to DOTARS' satisfaction.

189. The recently developed Regional Partnerships reporting pack provided by DOTARS to ANAO in June 2007 includes reporting requirements specific to in-kind contributions. In addition, the revised Long Form Standardised Funding Agreement released for use in August 2007 requires progress reports to include evidence of the funding recipient obtaining in-kind contributions. These initiatives are an enhancement over the practices in place during the period examined by ANAO. However, changes to the revised Long Form Standardised Funding Agreement also meant that there was no longer any requirement for the funding recipient to provide an audited acquittal as to whether, and to what extent, in-kind contributions are actually obtained.

190. In a risk management context, where in-kind partner contributions represent a relatively minor contribution to the overall project costs, or were not a significant factor in the Ministerial decision to approve funding, the absence of any acquittal of in-kind contributions does not represent a significant diminution in the accountability arrangements. However, there are some projects for which in-kind contributions are an important consideration in the approval of Regional Partnerships funding. In those circumstances, the absence of any audited acquittal of the actual in-kind contributions received represents a significant shortcoming in project accountability requirements. Accordingly, for such projects, it is important that project acquittals include information on the actual in-kind contributions that were realised.

191. In this respect, in July 2007, DOTARS advised ANAO that it understands that there is an obligation to monitor the recipient's success in obtaining in-kind contributions but, given the nature of these contributions and difficulties surrounding auditing this balance, the department does not consider it is reasonable to request that an auditor provides an opinion as to whether in-kind contributions have been obtained. Instead, DOTARS has enhanced the Regional Partnerships reporting pack to request that the recipient provides this information to the department in their progress reports and project completion reports. The department advised ANAO that it also retains the ability under the Funding Agreement to request an audit of the in-kind contributions if the circumstances relating to an individual project warranted it (and the in-kind contribution was of an auditable nature).

Performance reporting

192. It has been widely reported, including in each DOTARS Annual Report to the Parliament since the Programme commenced up to and including the 2005–06 Annual Report, that the Regional Partnerships Programme has attracted an average of $3 in contributions from other sources for every $1 contributed by the Programme to projects. The analysis underpinning this reporting is now quite dated (October 2004). A more recent (November 2006) departmental evaluation concluded that partner contributions had been $2.56 for each $1 of Regional Partnerships funding.[62] Most recently, DOTARS has reported[63] that the Regional Partnerships Programme returns more than $4 on the ground for every $1 invested by the Government.

193. Using audited data provided to DOTARS by funding recipients of actual cash contributions from project partners, in aggregate, for the 86 projects in the audit sample that had been completed to DOTARS' satisfaction, funding recipients reported $1.76 in actual partner cash contributions for each $1 in Regional Partnerships funding.[64] The significant difference between partnership funding ratios being reported by DOTARS and the figure that is supported by audited information provided by funding recipients reflects deficiencies in the methodology used in the departmental evaluations that have underpinned reporting in this area. Specifically:

- the final cost of a project (and therefore the amount of funds contributed by the funding recipient and/or other project partners) may differ from the budget included in the annexure to the Funding Agreement Schedule executed with the funding recipient. However, rather than using reliable audited data of actual partner contributions submitted by funding recipients at the completion of the project[65], DOTARS has used data from the project budget included in Funding Agreements when they were signed to identify the contributions 'made' by partners. On this issue, in July 2007 DOTARS advised ANAO that the delegation to the department to approve minor changes (see paragraph 145) in partnership arrangements and improved reporting arrangements will:

  > result in the capture of data that will support a more rigorous examination of partner contributions under the programme in future evaluations.

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[62] This figure was as at 31 December 2005. In July 2007, DOTARS advised ANAO that, as of 30 June 2007, the figure was standing at $3.47.

[63] DOTARS, *Momentum—The Quarterly Magazine of the Transport and Regional Services Portfolio*, Winter 2007, p. i.

[64] As noted, for 19 projects DOTARS did not obtain from the funding recipient an acquittal that included details of partner cash contributions. Excluding these 19 projects from analysis, the reported ratio of partner cash contributions to each $1 of Regional Partnerships funding was $2.43.

[65] At the conclusion of a project, funding recipients are required to provide an audited detailed statement of receipts and expenditure in respect of both the Regional Partnerships funding and all partner contributions.

- cash and in-kind contributions included in Funding Agreements are aggregated, notwithstanding that the first internal evaluation of the Programme, completed in October 2004, recognised the different nature of the two types of contributions. The evaluation stated that differentiating cash contributions from in-kind contributions would provide a better understanding of the nature of partnerships, and that this analysis would be included in future evaluation reports. In this respect, in July 2007, DOTARS advised ANAO that:

> There is still an intention to include some analysis of the relative proportions of cash and in-kind contributions to the Regional Partnerships programme. This will be undertaken when there is sufficient reliable date on this to make the analysis meaningful.

194. The department's proposals to address the deficiencies in its collection and analysis of data on partnerships funding outcomes for Regional Partnerships projects will be an important step towards more accurate reporting on the performance of the Regional Partnerships Programme in delivering projects in partnership with applicants and/or other partners.

Summary—Identifying, Assessing and Managing Viability Risks (Part 4 of report)

Introduction—Identifying, assessing and managing viability risks

195. In the first three years of the Regional Partnerships Programme, three primary areas were identified in the Programme Guidelines as being the basis for assessing the value for money provided by each application. These were project and applicant viability, partnerships and support, and outcomes. In broad terms, the purpose of assessing project viability is to provide assurance that projects funded by the Australian Government will not need further funding to enable the outcomes to be obtained or sustained.

196. Effectively assessing and managing viability risks relating to both applicants and the projects for which funding is being sought is a critical factor affecting the success of a grants programme in producing sustainable, desirable outcomes. Consistent with this principle, applicant and project viability assessment criteria have been an integral part of the Regional Partnerships Programme Guidelines from the commencement of the Programme.

197. Applicant viability has been defined in DOTARS' Regional Partnerships Internal Procedures Manual as being evidence that an applicant has the capacity and ability to ensure the project and its outcome(s) will be achieved within the period of funding, and sustained beyond the period of funding.[66] Project viability is defined as evidence that the project outcomes are sustainable beyond the funding period, that the project has been appropriately costed and that there is sufficient funding to achieve the outcomes.[67]

Programme design implications

198. As a consequence of the approach taken in the design of the Regional Partnerships Programme, there are a number of features that present challenges for DOTARS in its assessment and management of viability risks. For example:

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[66] DOTARS, *Regional Partnerships Internal Procedures Manual*, September 2005, p. 86.

[67] DOTARS, *Regional Partnerships Guidelines*, July 2006, p.20.

- whereas most discretionary grants programmes operate through structured funding rounds, applications for funding under the Regional Partnerships Programme may be submitted at any time;
- reflecting the partnership approach to the Programme, the viability of a project may depend significantly on the funding recipient's management of the receipt and expenditure of contributions from a number of different funding partners;
- most types of entities are eligible for funding; and
- there are few limits on the types of projects that can be funded through the Regional Partnerships Programme.

199. Ministers have retained the authority to approve or not approve funding for all projects. Accordingly, regardless of whether or not the department recommends that an application be approved for funding, it is important that all relevant risks relating to that application are examined through the departmental assessment and, where necessary, identified to the Ministerial decision-maker. This will appropriately inform the Minister's decision, including any risk-mitigating conditions that could usefully be attached to funding approvals.

200. In some cases, Ministers have approved Regional Partnerships funding for projects that did not demonstrably satisfy Programme assessment criteria, including the applicant and/or project viability criteria. In these circumstances, effective management of risks through the Regional Partnerships Funding Agreement poses significant challenges for DOTARS in terms of available resources, and whether Regional Office staff possess the requisite experience and expertise to effectively manage such risks.

Audit conclusions—Identifying, assessing and managing viability risks

201. Aspects of the design of the Regional Partnerships Programme have presented challenges for DOTARS in terms of assessing and managing viability risks. For example, the absence of funding rounds has meant that each project is considered in relative isolation, making it more difficult for consistent standards to be applied to project assessments. In addition, a diverse range of skills and experience is needed in order to appropriately identify risks in relation to applications that range from large projects submitted by commercial applicants (who may also be engaged in raising capital for the project through equity and/or debt) to small community-based projects submitted by non-profit organisations whose viability may be heavily dependent on grants and fund-raising activities.

202. When making recommendations as to whether individual applications should be approved for funding, DOTARS provides an assessment of viability risks to the Ministerial decision-maker(s) as part of its overall assessment of each project. Of the 84 projects that were not approved for funding in the sample of 278 applications examined by ANAO, 72 (86 per cent) were not approved due in whole or in part to issues associated with the assessed viability of the applicant and/or project. However, there were also a number of projects within the sample:

- that were recommended and/or approved for funding, notwithstanding identified viability risks; or
- where DOTARS' project assessment did not identify and/or rigorously assess viability risks, with the result that these risks were not managed.

203. Since the commencement of the Programme, the various versions of the Internal Procedures Manual have documented various due diligence procedures required to be undertaken as part of the assessment of applicant and project viability risks. However, DOTARS regularly departed from its own procedures when assessing projects against the two viability criteria. In particular, ANAO's examination of DOTARS' assessment of a sample of 278 applications, including through detailed case studies, identified that DOTARS had not struck an appropriate balance between the identification and assessment of key viability risks and the finalisation of project assessments for Ministerial consideration. Specifically:

- there had been a tendency to complete assessments without obtaining important information concerning the viability of the applicant and/or the project for which funding had been sought;
- there had often been an absence of documented analysis of information that had been included with applications for funding, particularly in relation to financial information provided on the applicant and its project;
- key statements and claims made by project proponents in their applications for funding were often subjected to little or no scrutiny, but instead taken at 'face value';

- external viability assessments had not been obtained when the department's procedures required them, and these procedures had, over time, become less risk-based; and
- where external advice on applicant and/or project viability was obtained, the findings and recommendations were frequently inadequately reflected in advice provided to Ministers and/or (for approved projects) not effectively addressed in the development and management of the Funding Agreement.

204. A number of the case studies examined by ANAO demonstrated how adherence by the department to its documented due diligence procedures would have led to a more informed project assessment and, accordingly, better advice to the Minister(s). Where Regional Partnerships funding was approved, greater adherence to those procedures would also have offered the potential for the better management of risks through the Funding Agreement.

205. It is also evident that, in a number of areas, DOTARS did not have available the expertise to properly scrutinise applications for funding, including through the application of accepted financial evaluation techniques. This was particularly the case in relation to applications submitted by for-profit entities. This is an area where greater adherence to the department's criteria for commissioning external viability assessments would have contributed to better-informed funding decisions.

206. In September 2007, the Minister for Transport and Regional Services announced that channelling all applications from private businesses into an Enterprise Partnerships funding stream for consideration in two funding rounds each year was being introduced so that applications from these entities can considered more thoroughly and to enable the department to undertake stronger financial viability assessments.

Improvements to Programme administration

207. In response to ANAO findings which highlighted that significant improvements were needed in the identification, assessment and management of applicant and project viability risks, DOTARS undertook a considerable amount of work to develop revised administrative procedures. In particular, the department has explicitly adopted a broader application of risk management principles to guide the assessment of viability risks; provide more informed advice on viability risks to the Ministerial Committee; and, where projects are approved for funding, better manage any identified risks.

This work has been reflected in a revised Internal Procedures Manual, staff training and the development of a revised Long Form Standardised Funding Agreement, all of which were expected to take full effect from 1 July 2007.[68]

208. DOTARS' advice to ANAO and the supporting information on Programme improvement initiatives has been taken into account in preparing this report. In this respect, ANAO has made four audit recommendations in this part of the audit report to assist the department in further improving its identification, assessment and management of viability risks associated with Regional Partnerships projects.

Key Findings—Identifying, assessing and managing viability risks

Due diligence inquiries (Chapter 4:2)

209. Due diligence is a process undertaken to obtain sufficient information for informed decision-making and to verify the accuracy and completeness of information that has been provided. In the report of its inquiry into the Regional Partnerships Programme, the Senate Committee recommended that due diligence processes applied to applications be strengthened.

Assessment ratings

210. When assessing applicant and project viability risks, DOTARS had adopted a three-point ordinal scale of 'high', 'medium', and 'low'. The significant majority of applicants in the audit sample (84 per cent) were assessed by DOTARS as representing a low applicant viability risk. Similarly, the significant majority (69 per cent) of projects that were assigned a project viability risk rating were assessed as being a low risk. The current environment of heightened construction project risks, particularly cost increases and labour shortages, was not reflected in DOTARS rating 114 (78 per cent) of the 147 projects involving construction in the audit sample as a low project viability risk.

211. To provide better information to Ministers regarding viability risks associated with Regional Partnerships applications, DOTARS advised ANAO in April 2007 that it had developed a five scale ordinal rating system that is consistent with the department's broader risk management framework.

[68] In October 2007, DOTARS advised ANAO that the revised Long Form Standardised Funding Agreement was released for use on 27 August 2007 after training had occurred throughout July 2007 and the first half of August 2007.

Obtaining and analysing viability-related information

212. A fundamental underpinning for the effective identification and assessment of viability risks so as to inform funding decisions and, where applicable, enable risk to be prudently managed, is for sufficient and appropriate information to be obtained and analysed.

213. Applicants for Regional Partnerships funding are expected to provide DOTARS with a range of relevant information to inform the department's analysis of the application against the Programme assessment criteria. However, in the period examined by ANAO:

- there were projects where required information was not provided for analysis at the time of the original application and/or in response to later requests from DOTARS. However, this was not appropriately reflected in DOTARS' assessment of applicant and/or project viability risks as advised to the Ministerial decision-maker;
- insufficient information for analysis was obtained by the department. This was particularly the case with respect to financial information relating to the applicant and the project, including adequate cash flow forecasts to support reliable financial analysis of commercial projects; and
- departmental assessments were completed prior to relevant information being obtained for analysis. However, even where information subsequently received raised significant viability issues, it did not cause the department to provide further advice to the Ministerial decision-maker.

214. In addition, for some projects, inadequate due diligence reflected a truncated assessment process and/or an over-reliance on assertions made by applicants without key issues being subjected to independent scrutiny or documentary substantiation, in the manner advocated by the department's Internal Procedures Manual.

Improvements to Programme administration

215. In June 2007, DOTARS provided ANAO with a copy the revised *Application Assessment* section of the draft revised Internal Procedures Manual. DOTARS advised ANAO that it had already implemented a number of the checklists, templates and the risk management framework matrix from the draft revised Manual. DOTARS further advised ANAO that it was endeavouring to finalise the Manual prior to training that would be delivered towards the end of July 2007 for assessors, and then for ACCs (in relation to developing an application).

216. The changed internal procedures involved a broader application of risk management principles to guide the assessment of viability risks. This included various checklists that required assessors to:

- identify viability risks;
- explicitly consider the likelihood of these risks occurring and the impact of the event should it occur;
- determine the overall level of risk for the project and decide, on the basis of the risk assessment, whether or not to recommend that the Ministerial Committee approve Regional Partnerships funding; and
- identify appropriate risk management strategies in the event the project is approved for funding.

217. Implementation of the above revised internal procedures, combined with staff training and the review of the Programme's Long Form Standardised Funding Agreement that was underway at the time of ANAO's audit, can be expected to result in a stronger focus on the identification, assessment and management of applicant and project viability risks associated with Regional Partnerships applications. The changes can also be expected to better inform Ministerial decisions about whether to approve funding for projects.

218. An area that has not yet been addressed in the documented procedures and related training is the use of economic evaluation techniques. Such analysis is commonly undertaken as part of external viability assessments commissioned by DOTARS in respect to some applications. For some projects where an external viability assessment is not undertaken, there would be benefits in this type of analysis being undertaken by DOTARS.

External viability assessments (Chapter 4:3)

219. As part of the assessment of an application for funding, DOTARS may commission an independent external assessment of the applicant and/or project to examine its viability. External viability assessments are undertaken by independent consultants identified by DOTARS as having the necessary skills.

220. The depth and rigour of inquiry undertaken in an external viability assessment varies depending upon the terms of reference identified by the department and the cost limits applied. In total, within the sample examined by ANAO, DOTARS expended $52 158 over three financial years in obtaining external applicant and/or project viability checks or assessments in relation to 19 applications for projects worth $55.56 million (plus GST). Those applications were seeking a total of $11.46 million in Regional Partnerships funding, of which $7.99 million was approved. In this respect, DOTARS advised ANAO in June 2007 that:

> The Department is in the process of clarifying its requirements with Financial Viability Assessment[69] providers and in what format these should be presented. In particular, we are stressing to our providers that if they have not been provided with sufficient information to make an informed assessment of the financial viability of an applicant or project, they are to request the additional information through the Department.

The decision to obtain external advice

221. Based on the procedures in place at the time projects in the audit sample had been assessed, 27 per cent of the applications in the audit sample should have been subject to an external viability assessment. However, only eight per cent of applications examined had been the subject of an external viability assessment. This was a result of:

- the criteria for identifying the need for an external viability assessment becoming, over time, less clear and less risk-based;
- non-adherence to the documented criteria; and
- the department failing to commission assessments that the Ministerial approval of funding required be undertaken.

222. To address these shortcomings, the draft revised Internal Procedures Manual provided to ANAO in June 2007 incorporated strengthened procedures concerning when an external viability assessment should be conducted. In addition, DOTARS has reinforced the importance of undertaking such assessments prior to advice being provided to the Ministerial Committee, and taken appropriate steps to ensure that these assessments are actually being conducted. In this respect, in June 2007, DOTARS advised ANAO that:

> The Department has increased the number of Financial Viability Assessments it undertakes. External Financial Viability Assessments are requested for all

[69] Financial Viability Assessment is referred to as external viability assessment throughout this report so as to reflect that some viability assessments address more than just financial viability (for example, they may also be expected to examine technical project viability issues).

projects from for-profit organisations seeking more than $250 000 and for all projects from not-for-profit organisations and local government operating in a commercial environment and seeking more than $250 000. In addition, Financial Viability Assessments may be required if the risk profile of the applicant and/or project so warrant it.

223. These improvements could be further enhanced by requiring departmental assessors to explicitly consider the size and complexity of the overall project, as well as the amount of Regional Partnerships funding being sought, when deciding whether to commission an external viability assessment. At present, the procedures focus on the amount of Regional Partnerships funding being sought and the type of applicant.

224. In addition, similar to earlier versions of the Internal Procedures Manual, the revised procedures and training have not addressed the approach to be taken in circumstances where DOTARS relies on viability reports undertaken or commissioned by funding partners or other parties. As a result, inconsistent practices have emerged in respect to whether the department obtains a copy of the report of such assessments and an understanding of the extent, nature and relevance of the investigations and analysis that underpinned the work.

Management of identified risks

225. The revised Internal Procedures Manual incorporated the first documented guidance as to how a 'satisfactory' external viability assessment could be achieved. Risks identified by external viability assessments are to be explicitly addressed as part of the recently developed risk management framework (see paragraph 216). This approach is being reinforced by training and through the implementation of a declaration by officials delegated to execute Funding Agreements that, prior to signing the Agreement, they have verified that all relevant conditions identified by the external viability assessment report have either been met or have been incorporated into the Funding Agreement.

226. These improved procedures provide an appropriate administrative framework to provide greater assurance that the findings and recommendations of external viability assessments will be addressed. This is both in respect to adequately informing the Ministerial Committee when it is asked to make decisions about whether to approve Regional Partnerships funding, and also in the management of viability risks for projects that the Committee has approved for funding.

Funding for-profit organisations (Chapter 4:4)

227. As the Senate Committee recognised in the report of its inquiry into the Regional Partnerships Programme[70], government grants are a valuable source of funding to for-profit organisations. This is because obtaining grant funding increases after tax cash flows to the funding recipient, without the recipient being required to pay a return on those funds.

228. In May 2007, the Minister for Transport and Regional Services stated that he would like to see commercial projects becoming an increasing focus of the Regional Partnerships Programme.[71] In addition, in September 2007, the Minister announced that all applications from private businesses will be channelled into a specific funding stream and that applications for funding under this stream will be considered through two funding rounds a year.[72] In announcing this change, the Minister said:

> We are restricting the timing of these applications so we can consider them more thoroughly and undertake stronger financial viability assessments.

229. In this respect, greater funding of for-profit entities[73] has important implications for DOTARS in its administration of the Programme, compared to projects submitted by community-based organisations and Local Government Authorities, given that:

- additional and different skills are required to identify, assess and manage viability risks for incorporated entities and relevant entities in the corporate group;
- based on experience in the Programme to date, for-profit entities seek significantly larger amounts of Regional Partnerships funding[74] for projects that are significantly larger[75] and may be more complex; and

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70 Senate Committee Report, Finance and Public Administration References Committee, *Regional Partnerships and Sustainable Regions programs*, October 2005, p. xvii.

71 The Hon Mark Vaile MP, Minister for Transport and Regional Services, *2007 Area Consultative Committees Conference*, op. cit.

72 The Hon Mark Vaile, Minister for Transport and Regional Services, *National Press Club Address Plan for Regional Australia*, op. cit.

73 The current Regional Partnerships Programme Guidelines define a commercial project as one where the financial transactions result in profits to the applicant.

74 The average amount of Regional Partnerships funding applied for by for-profit organisations in the audit sample was $445 784, compared to an average application of $146 187 by non-profit organisations and $175 244 by Local Government Authorities.

- projects submitted by for-profit organisations have been funded mainly by the applicant and the Regional Partnerships Programme, with few other funding partners involved.

230. The Regional Partnerships application form advises that certain additional information will be required from private sector entities seeking more than $250 000 in Regional Partnerships funding. In this respect, the financial information for-profit organisations can be asked to supply to support their application can provide much of the information necessary to undertake relevant quantitative analyses of projects. However, there was little evidence of such analysis having been conducted by DOTARS with respect to the applications from for-profit organisations in ANAO's sample. In particular:

- the only applications from for-profit organisations where there was documented analysis of historical financial results was in relation to the small proportion of applications that were subject to an external viability assessment. In those cases, the external assessor generally undertook analysis of the applicant's existing financial position and recent earnings performance, and various financial ratios were often calculated and compared to benchmarks so as to inform the assessment. By way of comparison, the records relating to projects assessed by DOTARS alone did not evidence any rigorous analysis of the historical financial data provided by applicants in order to inform assessments of applicant and project viability risks; and
- similarly, the only occasions on which projected financial results provided by for-profit applicants were analysed was in relation to the small proportion of applications in respect of which an external viability assessment had been commissioned by DOTARS. Further, the reliance that could reasonably be placed on such analysis where it was undertaken was reduced as result of the limited nature of the financial information provided by the applicants[76], or there were concerns about

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75 The average total project cash cost of projects in the audit sample submitted for funding by for-profit organisations was $1 866 598, compared to an average total project cash cost of $712 730 across all projects in ANAO's sample. The applicant category with the next highest average total project cash cost was Local Government Authorities with $839 968, more than one million dollars on average less than the average value of projects submitted by for-profit organisations.

76 In three of the four instances where net present value (NPV) calculations were undertaken in respect of projects in ANAO's sample, the consulting firm that conducted the external viability assessment commented that the period of time for which cash flow projections were provided may not be sufficient in order to correctly calculate the NPV of the project, and that it was preferable that at least 10 years of projections be provided by the applicant rather than the three years or less actually obtained by DOTARS. In none of these instances did DOTARS obtain projections for the longer period of time.

the quality of the data the applicant had provided which, on occasion, resulted in the external assessor qualifying its advice to DOTARS.

231. More broadly, in terms of the various types of applicants for Regional Partnerships funding in ANAO's sample, the most significant shortcomings identified in respect to the assessment and management of viability risks related to for-profit entities. In particular, ANAO's examination of projects in the audit sample identified instances in which DOTARS did not:

- require for-profit entities to provide, with their application for funding, comprehensive financial and other information on the corporate entity that was undertaking the project, and any relevant related entities in the corporate group. This led to delays in project assessments and/or reduced the rigour of advice provided to the Ministerial decision-maker (where the information was not obtained during the assessment);
- identify and appropriately scrutinise the actual applicant and relevant entities in its corporate group. In some instances, the only information provided to, and analysed by, DOTARS related to entities in the group other than the applicant entity;
- have procedures in place to obtain and analyse publicly available information maintained by the Australian Securities and Investments Commission concerning for-profit applicants and their operations;
- assess whether the project was at an appropriate stage of development for Regional Partnerships funding. Some projects that are at a very early, start-up stage represent heightened risks to the Commonwealth, but Ministerial decision-makers have not been advised of this circumstance. Other projects were submitted by well-established entities, with DOTARS' practices involving inadequate scrutiny as to whether Regional Partnerships funds were necessary and appropriate for the project to proceed;
- adopt consistent practices with respect to assessing whether alternative funding sources had been exhausted (which the Minister for Transport and Regional Services has recently reiterated as an important consideration[77]). To the extent that this issue was addressed, the focus was on funding that may be available through financial institutions (such as banks) without explicit regard being had to other sources of

[77] The Hon Mark Vaile MP, Minister for Transport and Regional Services, *2007 Area Consultative Committees Conference*, op. cit.

debt and equity finance in the context of Australia's well-developed capital markets; or

- adequately scrutinise the terms of finance arrangements that applied to the cash contribution to the project proposed to be made by the for-profit applicant.

232. As noted, changed procedures identified in the draft revised Internal Procedures Manual provided to ANAO in June 2007 required that an external viability assessment be commissioned for all applications submitted by for-profit entities seeking more than $250 000 in Regional Partnerships funding. In addition, DOTARS has advised ANAO that it is clarifying its requirements with the contracted providers of external viability assessment reports. These changes should assist the department to more effectively identify, assess and manage viability risks for incorporated entities and relevant entities in the corporate group for those projects where an external viability assessment is undertaken. For projects that are not subject to an external viability assessment, enhanced internal procedures and training of staff will be necessary to promote the identification and analysis of significant viability risks.

Summary—Managing for Outcomes (Part 5 of report)

Introduction—Managing for outcomes

233. The Regional Partnerships Programme has operated under four objectives relating to: stimulating growth in regions; improving access to services; supporting planning; and helping communities make structural adjustments. Potential applicants for Regional Partnership funding are advised in the Programme Guidelines that proposed projects will be assessed against the extent to which they meet Programme objectives and that particular regard will be had to the project outcomes that are expected to be achieved.

234. In addition to the Programme objectives, from 2006–07 information has been published on the Government's annual funding priorities. For both 2006–07 and 2007–08, these funding priorities were expressed as being for small or disadvantaged communities; economic growth and skill development; indigenous communities; and youth. The Programme Guidelines state that applications are not limited to these priorities but that the Government expects that ACCs will put forward applications which address at least some of these priorities.

235. A key component of successful grants management is a sound performance information framework complemented by a programme evaluation strategy that informs the agency's management of grants and provides adequate performance information for external accountability.[78] Table 4 outlines the performance indicators identified for the Regional Partnerships Programme over its first five years. The evaluation strategy for the Regional Partnerships Programme is in three stages, with the second (mid-term) evaluation report having been published in November 2006.

[78] ANAO Audit Report No.47 2005–06, *Funding for Communities and Community Organisations*, Canberra, 21 June 2006, p. 74.

Table 4

Programme Performance Indicators: 2003–04 to 2007–08

<table>
<tr><th>Indicator Type</th><th>2003–04</th><th>2004–05</th><th>2005–06</th><th>2006–07</th><th>2007–08</th></tr>
<tr><td>Effectiveness</td><td colspan="2">Communities have improved growth and opportunities, access to services, support for planning, and assistance in structural adjustment.</td><td colspan="3">Funded projects improve regional growth and opportunities, access to services, planning and structural adjustment.</td></tr>
<tr><td rowspan="3">Quality</td><td colspan="2" rowspan="3">Clients are satisfied with the programme.</td><td>Regional priorities are established by an ACC in each region.</td><td></td><td></td></tr>
<tr><td colspan="3">90% of applications for funding are assessed within 12 weeks of submission.
Grants are provided for projects which meet programme guidelines, including consistency with ACC regional priorities and partnership funding.
Payments are made in line with project progress and Funding Agreements.</td></tr>
<tr><td>90% of project proponents and ACCs are satisfied with the programme's administration.</td><td></td><td></td></tr>
<tr><td>Quantity</td><td colspan="2">Number and geographic spread of grants approved.</td><td colspan="2" rowspan="2">Regional priorities and projects are established in every region of Australia (56 regions).</td><td rowspan="2">Projects are established in every region of Australia (56 regions).</td></tr>
<tr><td>Location</td><td>Regional, rural and remote Australia.</td><td>Australia's regions.</td></tr>
<tr><td>Cost</td><td>$99.1 million</td><td>$90.8 million</td><td>$111.6 million</td><td>$77.2 million</td><td>$72.4 million</td></tr>
</table>

Source: Transport and Regional Services Portfolio, Portfolio Budget Statements 2003–04 to 2007–08.

Audit conclusions—Managing for outcomes

236. The broad objectives identified for the Regional Partnerships Programme provide significant flexibility in respect to the types of projects that can be considered to support one or more of the objectives and, therefore, be approved for funding.

237. A corollary to the existence of wide parameters in relation to funding decisions is that it can be difficult to assess on a comparable and equitable basis those projects that are appropriate to be funded through the Programme. In addition, where a wide variety of projects can be approved for funding, it becomes more difficult for Programme promotion to be targeted at particular areas, for potential applicants to identify the Programme as an appropriate possible source of Commonwealth funding for their particular project, and for applicants and other stakeholders to distinguish between the reasons that some projects are funded and others are not. While ultimately a matter for Government decision, these considerations are indicators that the Regional Partnerships Programme objectives could be more focused. In addition, as concluded by the Senate Committee, more specific Programme objectives would assist with meaningful evaluation of the Programme. Against this background, the September 2007 announcement by the Minister for Transport and Regional Services of changes to the Regional Partnerships Programme provides an opportunity to introduce greater clarity in this area.

238. Between 2003–04 and 2006–07, total funding of $409.676 million was allocated through administered annual appropriations to the Regional Partnerships Programme for expenditure on grants and payments to ACCs. In aggregate, actual Programme expenditure was 20 per cent less than the available funding. However, the shortfall would have been considerably greater had DOTARS not adopted various strategies to increase Programme expenditure. In particular, there had been a focus on paying half or more of the approved funding at or around the time the Funding Agreement for a project was signed (irrespective of project cash flow requirements and notwithstanding that Funding Agreement pre-conditions applying to those payments may not have been satisfied), and making subsequent instalment payments notwithstanding that funding recipients had not met their contractual obligations. Such practices are not consistent with sound risk and financial management principles.

239. In recognition of the unique design of the Programme and the delays often experienced with projects, and to assist with increased expenditure of available funding, in August 2007 the Finance Minister agreed to a request that the Ministers responsible for regional development be authorised to approve funding for projects without any limit being placed on the total amount of funding that may be committed. Such authorisations are usually subject to specified monetary limits so as to manage the extent to which commitments to spend public money are entered into where funds have not yet been appropriated. Preferably, if the Government considers it important that the department take further steps to spend the annual budgeted allocation, rather than the department making payments in advance of project requirements as has previously occurred, DOTARS should seek to improve its information on Programme funding needs by:

- better scrutinising the cash flow needs of individual projects as part of its assessment procedures; and
- obtaining better information from grant recipients on their forward funding expectations as part of its project monitoring activities.

240. Integral to the success of the grant funding process is an on-going monitoring regime to ensure funding recipients are meeting agreed milestones and other key requirements of their Funding Agreements, combined with the evaluation of individual project outcomes once projects are completed. The Long Form Standardised Funding Agreement used for most Regional Partnerships projects during the first four years of the Programme, combined with a documented risk-based monitoring framework developed in September 2003, provided the basis for an effective regime to promote the achievement of anticipated project outcomes. However, there have been significant and widespread shortcomings in the implementation of this framework which, for the period examined by ANAO, was reflected in:

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

- contracted outcomes not being demonstrably achieved for the majority of completed projects in the audit sample.

241. As a consequence of deficiencies in DOTARS' performance information framework for the Programme, and shortcomings in programme evaluation methodologies, departmental Annual Reports have not disclosed that time delays and cost over-runs have occurred in respect to many projects, or the shortcomings in the extent to which funding recipients have reported that contracted project outcomes have been achieved.

Improvements to Programme administration

242. Improvements are being made to the administration of the Regional Partnerships Programme, including through training of staff, development of a revised Internal Procedures Manual and more clearly defining and reinforcing project reporting requirements of funding recipients. These improvements can be expected to assist with enhancing the delivery of outcomes from Regional Partnerships funding of approved projects.

243. DOTARS' advice to ANAO and the supporting information on Programme improvement initiatives has been taken into account in preparing this report. In this respect, ANAO has made five audit recommendations in this part of the audit report to assist the department in further improving the monitoring and evaluation of project and Programme outcomes.

Key Findings—Managing for outcomes

Appropriation funding and management of expenditure (Chapter 5:2)

244. The Regional Partnerships Programme was designed to provide the capacity to fund a broad range of project types and funding recipients from within a single, ongoing funding source. It was ultimately agreed that the integrated regional grants programme would operate through a single administered annual appropriation. This was given effect through the 2003–04 Budget process with additional funding provided as part of DOTARS' Outcome 2 administered annual appropriation.

245. Between 2003–04 and 2006–07, total funding of $409.676 million was allocated through administered annual appropriations to the Regional Partnerships Programme for expenditure on grants and payments to ACCs. There was significant under-spending of the available allocated appropriation funding in each of the first four years of the Programme's operation. Over the first four years, total expenditure was $327.934 million, a shortfall of $81.742 million (20 per cent) against the available funds. However, the level of under-expenditure would have been significantly greater had DOTARS not adopted various strategies to increase Programme expenditure. In particular, the department had:

- reduced the time taken to undertake project assessments in order to ensure that there were sufficient approved projects to enable contracting and expenditure of allocated appropriations;
- structured Funding Agreements to make payments in advance of the need identified by the funding recipient in its application for funding. The amount of the first instalment of Regional Partnerships funding (often paid at or around the time the Funding Agreement was signed) usually represented a substantial proportion of the total funding approved for the project[79]; and
- made payments to funding recipients notwithstanding that Funding Agreement pre-conditions applying to those payments had not been satisfied. This included:
  - instances where funding recipients had not satisfied pre-conditions on the first instalment (such as confirmation of co-funding or obtaining of building approvals), noting that such pre-conditions were often an explicit requirement of the Ministerial approval of Regional Partnerships funding for the project; and
  - for subsequent payments, a failure by funding recipients to acquit the expenditure (if any) of earlier instalments of Regional Partnerships funds.

246. In December 2006, DOTARS advised ANAO that, as part of improvements being made to the administration of the Programme, it had undertaken extensive training of over 120 staff from all Regional Offices and relevant staff from its National Office on the process of negotiating and executing a Funding Agreement. The department further advised that one of the key messages it had reinforced in that training was that payments should not be made in advance of need. In addition, the revised Internal Procedures

[79] In this respect, 83 per cent of the 180 Funding Agreements in ANAO's sample provided for at least half of total Regional Partnerships funding to be paid in the first instalment. On average, the first instalment comprised some 62 per cent of total approved funding.

Manual requires the Funding Agreement payment schedule to be based on need and to be subject to the achievement of appropriate project milestones. It is important to underline this latter message as, for some programmes, there can be pressure to spend budgeted allocations in advance of need in order to maximise expenditure in a given financial year.

Distribution of applications and funding (Chapter 5:3)

247. Access and equity are important elements of the administration of Commonwealth programmes. The distribution of grants made under a national grants programme can be a measure of equitable distribution, and can also be an indicator of any party-political bias in the distribution of grants. In this context, a key concern raised by the Senate Committee in its report was that, whilst there was little difference in the proportion of applications approved among electorates held by different parties, there were significant differences in the numbers of applications made from electorates held by Government, Opposition and Independent members, and in the funds provided.

248. ANAO examined the pattern of distribution of Regional Partnerships applications and approved grants since the commencement of the Programme to 30 June 2006 on both a geographic and electorate basis. As well as providing an additional 18 months of data to that examined by the Senate Committee, this timeframe enabled analysis to be undertaken of application and approval patterns both before and after the October 2004 Federal election.

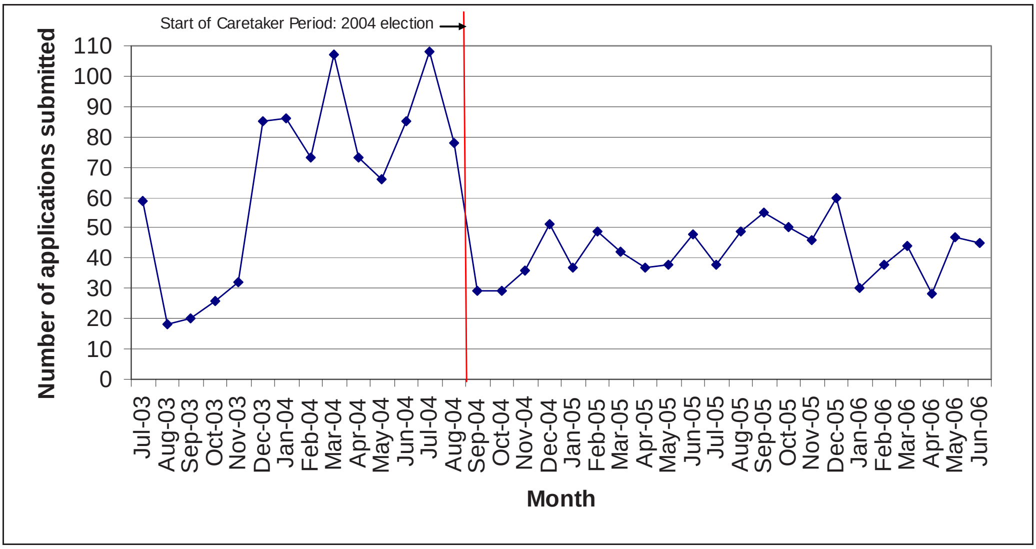
Distribution of applications

249. During the period examined by ANAO, applicants from all areas of Australia were eligible to apply for Regional Partnerships funding at any time. As illustrated by Figure 8, the number of applications submitted each month between December 2003 and August 2004[80] was significantly higher than in the first five months of the Programme or in any month since the 2004 Federal election to 30 June 2006. The increased application activity reflected a focus in the administration of the Programme on maximising the number of projects for which funding could be committed in order to maximise expenditure of available funds, together with a number of projects that were identified for accelerated consideration under the Programme through means other than the normal application process.

80 The caretaker period for the 2004 Federal election commenced at 5:00 pm on 31 August 2004.

Figure 8

Applications submitted per month: July 2003[81] to June 2006



Source: ANAO analysis of DOTARS data.

250. In the three years examined by ANAO, there had been substantially higher numbers of applications received from Liberal-held electorates than from electorates held by representatives from other parties. A comparison of the proportion of seats held by each party with the rate at which Regional Partnerships applications had been received in those seats to 30 June 2006 identified that:

- Labor party electorates were submitting substantially fewer applications relative to their representation in the Parliament; and
- National party electorates were submitting significantly more applications relative to their representation in the Parliament.

251. This was in part due to the fact that, consistent with the focus on regional and rural communities identified in the Programme Guidelines and the *Stronger Regions, A Stronger Australia* Statement on which the programme is based, the largest proportion (73 per cent) of applications submitted over the first three years related to projects located in electorates categorised by the Australian Electoral Commission as 'rural'. In the period examined, the majority of rural electorates were held by the Coalition parties.

[81] Applications submitted under programmes subsumed into Regional Partnerships and rolled into the new Programme for funding consideration are shown in Figure 8 as having been submitted on 1 July 2003.

252. However, applications from Labor-held rural electorates were under-represented in the applications received compared to the proportion of rural electorates held. This was particularly the case in the period prior to the 2004 election, when Labor-held rural electorates accounted for 11 per cent of rural seats but only five per cent of applications from rural electorates. In the period following the election to 30 June 2006, applications from Labor-held rural electorates (nine per cent of such electorates) represented seven per cent of all applications from rural electorates.

Distribution of approved funding

253. An important characteristic of the Regional Partnerships Programme has been the absence of funding rounds. As a result, applications are considered in relative isolation. Accordingly, unlike the approach taken in respect to some grants programmes, in which there is a stated objective of seeking to achieve an even distribution of funding across the States and Territories, the Regional Partnerships Programme Guidelines do not articulate any objectives regarding the geographic distribution of funding.[82] Nevertheless, two of the four Programme objectives allowed for explicit consideration in the assessment and approval process of the characteristics of the community in which a particular project was located. They were:

- the objective to 'improve access to services', which identified a particular focus on those communities in regional Australia with a population of less than 5 000; and
- the objective to 'help communities make structural adjustments', which allowed funding to be considered for projects that would provide transitional assistance to communities affected by major economic, social or environmental change.

254. Given the discretionary nature of Ministerial approvals under the Programme, the distribution of approved funding across party electorates is a measure of equity of access, as is the extent to which approved projects correlate with the pattern of applications. In this respect, ANAO analysis revealed that:

- consistent with the high rate of applications submitted in rural electorates, excluding funding approved for projects located in various

[82] However, the performance indicators identified for the Regional Partnerships Programme over its first five years have included a quantity and/or location indicator relating to the geographic spread of approved grants. The relevant indicator for 2007–08 is: 'Projects are established in every region of Australia (56 regions)'.

electorates and election commitment projects, rural electorates received 77 per cent of funding approved in the period July 2003 to August 2004 and 78 per cent of funding approved between October 2004 and June 2006. Further in this respect, the ten electorates (6.7 per cent of all electorates) that received the highest number of grants approved between July 2003 and June 2006 (excluding grants relating to election commitments) were all rural electorates. They accounted for 34 per cent of approved grants and 31.1 per cent of approved funding to 30 June 2006 (excluding funding approved for projects located in various electorates). All ten electorates were rural seats held by Coalition parties[83];

- while the proportion of applications considered for funding approval from each type of electorate remained similar in the period following the 2004 election to that which occurred prior to the election, there was a considerable reduction in the rate at which applications from all types of electorate (Rural, Provincial and Inner Metropolitan) other than Outer Metropolitan electorates had been successful. Further, the trend in respect to Outer Metropolitan applications differed between Labor and Liberal electorates (the National Party did not hold any Outer Metropolitan seats);
- there was little difference in the overall rate at which applications submitted from electorates held by the various parties were approved for funding over the full three years examined to 30 June 2006, with overall success rates ranging from 72 per cent to 69 per cent; and
- there was also little difference in approval rates in electorates held by various parties prior to the 2004 election, apart from a lower approval rate in National Party-held seats.[84] However, there was a substantial reduction in approval rates in the period following the 2004 election to 30 June 2006 in all electorates, except for National Party-held seats which experienced an only slightly lower approval rate. The most substantial reduction in approval rates in the period following the 2004

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[83] The non-Coalition electorate that had received the highest number of approved grants to 30 June 2006 was the Queensland Labor provincial seat of Capricornia, which had 21 grants approved to 30 June 2006 for total approved funding of $5 450 825. Of that, $4 695 086 (86 per cent) was approved prior to the 2004 election (between 13 May 2004 and 31 August 2004). Of the 14 projects in that electorate on which a funding decision was made prior to the 2004 election, 13 (93 per cent) were approved. The Australian Electoral Commission-identified status of that electorate changed from ‘Fairly Safe Labor’ prior to the 2004 election to ‘Marginal Labor’ after that election.

[84] That trend was to some extent offset by the high rate at which applications were received from applicants in those electorates compared to the proportion of seats held by the National Party.

election to 30 June 2006 occurred in electorates held by Independents and other minor parties.

Application processes

255. In its report, the Senate Committee asked DOTARS to consider, in consultation with the ACCs, possible reasons for the difference in the number of applications coming forward across electorates. DOTARS advised the Committee that it was looking at options for including this issue in future programme evaluation activities. However, the November 2006 report of the mid-term (Stage Two) evaluation of the Programme did not address possible reasons for the difference in the number of applications that have come forward across electorates.

256. Because there were no funding rounds, after the initial announcement of the Programme on 26 June 2003, there were no events to trigger applications. Instead, the primary means of promoting access to the Regional Partnerships Programme are the ACC network, including ACC websites and the promotional material distributed by that network; DOTARS' Regional Partnerships website, the Australian Government Regional Information Directory and the Australian Government Grantslink website; and media releases by the responsible Minister or local Members announcing funding approval for individual applications.

257. In announcing the Programme, the responsible Ministers stated that there would be one set of guidelines and one simple application process to make it as easy as possible to apply for funding. Consistent with this announcement, the various versions of the Internal Procedures Manual have outlined how the information provided by applicants is to be used to inform project assessments and be incorporated into the Funding Agreement. Where appropriately implemented, these steps and processes provide a suitable underpinning for the identification and assessment of outcomes proposed for individual projects, thereby contributing to the promotion of overall Programme outcomes. However, there have been a number of projects approved for funding that did not proceed through the application processes advised to the Senate Committee and documented in DOTARS' Internal Procedures Manual for the Programme. For example:

- some projects have been approved or put forward for Regional Partnerships funding by Government prior to an application to the Programme being made; and

- funding has also been obtained as a result of direct representations by project proponents or local Members rather than by submission through the relevant ACC or DOTARS of a Regional Partnerships application.

258. While Ministers may approve departures of this kind, given that the Regional Partnerships Programme was established by administrative arrangements rather than legislation, such practices risk undermining the confidence of stakeholders in the integrity of the application and selection process. Applicants should be encouraged to submit applications in the manner published in the Programme Guidelines to avoid the appearance of any party being given special treatment under the Programme.

Project monitoring (Chapter 5:4)

259. Integral to the success of the grant funding process is an on-going monitoring regime to ensure funding recipients are meeting agreed milestones and other key requirements of their Funding Agreements. In this respect:

- each version of the Regional Partnerships Internal Procedures Manual issued during the first four years of the Programme emphasised the importance of DOTARS closely monitoring projects funded under the Programme;
- in September 2003, DOTARS finalised a monitoring methodology for Regional Partnerships projects;
- the Long Form Standardised Funding Agreement used for most Regional Partnerships projects during the first four years (July 2003 to June 2007) of the Programme provided a framework to enable DOTARS to specify a reporting regime to facilitate monitoring of progress throughout the life of the project; and
- since 2005–06, one of the department's Regional Partnerships Programme quality performance indicators was: 'Payments are made in line with project progress and Funding Agreements'.

260. In its performance reporting, DOTARS has not provided any analysis or assessment of the extent or timeliness with which progress reports have been obtained from funding recipients as part of its project monitoring. DOTARS' performance reporting has also not addressed the extent to which site visits have been conducted. These performance indicators were set by the department, and it would be expected that its performance reporting would address them.

261. In relation to progress reporting, ANAO found that shortcomings in the administration of this aspect of those Regional Partnerships Funding Agreements examined by ANAO has had an adverse impact on the extent, quality and comprehensiveness of information held by DOTARS concerning the extent and causes of project delays. In particular:

- the specification of the number and frequency of required progress reports was not undertaken having regard to project risks, or the timeframe over which the project was to be conducted. In the absence of any documented guidance in the Internal Procedures Manual concerning factors to be considered in deciding the number of progress reports and their frequency, the practice that developed was that three reports or fewer would be required for most projects[85]; and
- of the 183 projects in the audit sample that had a Funding Agreement in place, 171 (93 per cent) required the funding recipient to submit at least one progress report during delivery of the project. In aggregate, 393 progress reports were required under the respective Funding Agreements in respect to these 171 projects, with the contracted due date having passed for 334 of those reports at the time of ANAO audit fieldwork. However, a high proportion (85 per cent) of these 334 reports either had not been provided to DOTARS (37 per cent), or had been provided after the due date specified in the Funding Agreement (48 per cent).

262. Improvements have been made to the departmental procedures for specifying and obtaining progress reports. Revised internal procedures state that the complexity of the project and the level of risk involved are to determine the number of reports required and the schedule for submission of reports. The revised Internal Procedures Manual further requires that Regional Office staff schedule the due dates of progress reports against defined milestones. The Manual notes that not every milestone will require a report, however a Regional Partnerships payment is not to be made unless triggered by a progress report. In addition, DOTARS has advised ANAO that an Information Technology solution is under development to support the ongoing case management of active Funding Agreements.

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[85] Specifically, 89 per cent of the Funding Agreements examined by ANAO required three reports or less. Further in this respect, the Funding Agreements for 97 per cent of the projects required four reports or less.

263. The department has not implemented the site visit procedures established in September 2003 and incorporated into the Internal Procedures Manual. As a result, there were few projects in the ANAO sample where any site visit had been undertaken by DOTARS. The revised Internal Procedures Manual provided to ANAO in May 2007 included changed guidance with respect to the scheduling and conduct of site inspections. The changed guidance more closely reflected existing practices. Accordingly, it reinforced the limited use of site visits for monitoring project delivery rather than encouraging a focus on project risks within a structured monitoring framework.

Project delays

264. Delays in the conduct and completion of a project mean that anticipated project outcomes are not being achieved in a timeframe that is commensurate with that which informed the Ministerial decision that awarding Regional Partnerships funds for the project represented value for money. In this respect, for the projects in the audit sample it has been commonplace for Regional Partnerships projects to take longer to be completed than the timeframe advised by DOTARS in the project assessments provided to Ministers.[86] In addition to a significant number of projects being delayed, the delays themselves were often substantial.[87]

265. The Long Form Standardised Funding Agreement used for most Regional Partnerships projects in the audit sample required that progress reports and Post Activity Reports include information on performance against the specified project outcomes and milestones, together with details of mitigating circumstances and remedial action undertaken in the event a milestone is not met or completed in the manner and/or by the time specified. In circumstances where DOTARS is inclined to agree to a significant extension to the due dates for project milestones and/or the overall project completion date, it would be reasonable in a risk management context for the department to:

[86] For example, the average project duration advised to Ministers for the 22 projects that were subject to an ANAO case study was ten months. Based on the actual or most recent expected completion date for these projects, the average actual project duration will be more than 20 months.

[87] For example, there were 60 projects (33 per cent) in the audit sample of 183 projects with a Funding Agreement in place where one or more variations had been agreed between DOTARS and the funding recipient to delay the due date for one or more progress reports. The average total delay in progress reporting was 222 days, or more than seven months.

- require that a progress report be submitted containing the information (including financial acquittal) specified in the Funding Agreement;
- use the information provided in the progress report to assist in informing its decision about whether to agree to an extension and, if so, the duration; and
- when it agrees to an extension, more closely monitor the project by requiring additional, and possibly more frequent, progress reports from the funding recipient.

266. However, in circumstances where a project has experienced delays, the department's practice has been to defer and re-schedule progress reports until such time as progress was achieved. In addition to giving rise to increased project delivery risks, this approach has meant the department has been unable to provide sound advice to Government on reasons for project delays across the Programme.

Project outcomes (Chapter 5:5)

267. Effectiveness indicators are necessary to demonstrate the extent to which outputs and/or administered items make positive contributions to specified outcomes. In 2003–04 and 2004–05, the Regional Partnerships Programme's effectiveness performance indicator was expressed by DOTARS as:

> Communities have improved growth and opportunities, access to services, support for planning, and assistance in structural adjustment.

268. Since 2005–06, the Programme's effectiveness indicator has been expressed as:

> Funded projects improve regional growth and opportunities, access to services, planning and structural adjustment.

269. In general, targets should be set for effectiveness indicators.[88] Targets provide a basis for performance assessment and, from an accountability perspective, help the Parliament to assess if a programme and the administering agency are delivering to expectations.[89] Targets can also encourage agency performance. However, at no stage have effectiveness targets for the Regional Partnerships Programme been set, or reported against,

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[88] See, for example, ANAO *Better Practice Guide—Performance Information in Portfolio Budget Statements*, May 2002, p. 25.

[89] ibid., p. 24.

by DOTARS. Instead, the department's performance reporting in relation to the Programme has involved providing broad statistics on the number of approved grants and amount of approved funding together with a small number (between three and five projects in each year) of examples of projects approved for funding. As a result, performance information published by the department in its Annual Reports has not provided the Parliament with a balanced assessment of Programme achievement, including the extent to which projects have been completed:

- in accordance with the timeline and budget specified in the Funding Agreement;
- having secured the partnership funding endorsed by Ministers when Regional Partnerships was approved; and
- with the contracted outcomes having been demonstrably achieved.

Contracting for project outcomes

270. Each version of the Regional Partnerships application form in place during the first four years of the Programme required that applicants provide information to DOTARS on the anticipated project outcomes. Where projects have been approved by Ministers, it has been on the basis of the outcomes expected to be achieved.[90]

271. In this context, the Funding Agreement is a key tool for securing the outcomes that were the basis of approval for project funding. To do this, the Funding Agreement should reflect the outcomes that were advised to the Minister as part of the approval process. However, ANAO analysis of projects in the audit sample revealed that it was commonplace for Funding Agreements to:

- exclude reference to some of the anticipated outcomes included in the application for Regional Partnerships funding and/or endorsed by the Ministerial decision-maker(s);
- require the project to produce lesser outcomes than those included in the application for funding and/or endorsed by the Ministerial decision-maker(s); and/or
- set performance measures at a level that represented a lesser outcome than the situation that existed prior to Regional Partnerships funding.

[90] In total, 97 per cent of the 983 grants approved to 30 June 2006 had been assessed by DOTARS as satisfying the outcomes criterion.

Capturing and using data on project outcomes

272. Consistent with recognised principles of sound practice in grants administration, the Regional Partnerships Long Form Standardised Funding Agreement has required funding recipients to report details of their project's progress towards, and performance against, the specified outcomes. However, in respect to the outcomes reporting requirements, DOTARS' administration has not been effective. In particular:

- for 81 (45 per cent) of the 182 projects in the audit sample that had a Funding Agreement in place based on the Standardised Funding Agreement, DOTARS had amended the pro-forma Funding Agreement to remove the standard provision specifying that the clause requiring the funding recipient to provide additional programme evaluation reporting if it was sought by DOTARS would survive the expiration or earlier termination of the Funding Agreement. Accordingly, for these projects, there is some doubt about whether the Funding Agreement provided an effective framework for obtaining additional outcomes reports from funding recipients;
- 81 per cent of applicable completed projects had Funding Agreements which identified future outcomes that were expected to be achieved after the expiry of the activity period. For these projects, further reporting on project outcomes beyond the term of the Agreement could have been requested by DOTARS. However, DOTARS had requested additional reports for only 23 per cent of the projects; and
- as illustrated by Figure 9, for only 21 per cent of the relevant completed projects examined by ANAO had DOTARS obtained from the funding recipient a report that supported an assessment that all outcomes had been achieved.[91]

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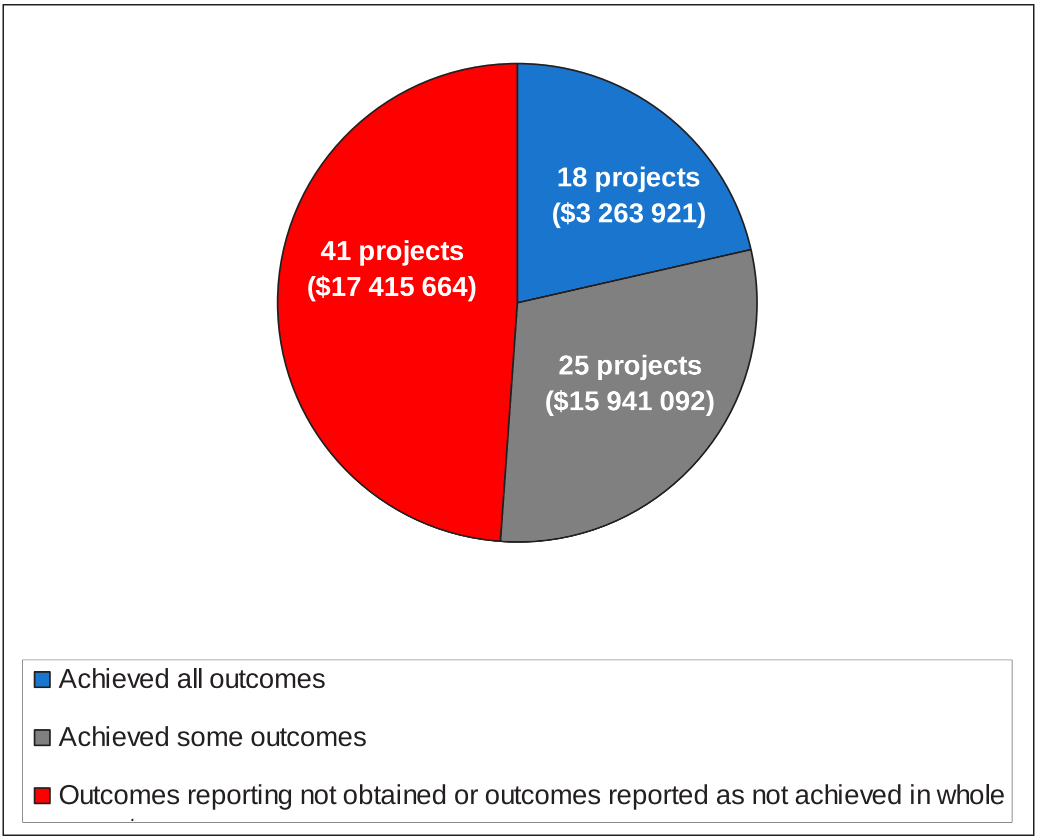
[91] The 41 projects where outcome reporting was not obtained or outcomes reported as not achieved in whole or part comprised 15 projects where DOTARS did not obtain a Post Activity Report before making the final payment and closing its administration of the grant; a further 15 projects where a report was obtained and accepted by DOTARS but it did not address the project outcomes and related performance measures specified in the Funding Agreement; and 11 projects where the information provided to the department revealed that the funding recipient had not met the project outcomes when assessed against the contracted performance measures.

Figure 9

Reporting on project outcomes: completed projects in the audit sample



Source: ANAO analysis of project outcome reporting obtained by DOTARS from funding recipients in the ANAO sample.

273. The revised Internal Procedures Manual provided to ANAO by DOTARS in May 2007 included revised outcomes reporting arrangements. These changes, including greater definition of the outcomes reporting requirements, should be of assistance in improving the department's performance in evaluating individual grants. However, realising the anticipated benefits depends to a significant degree on greater attention being given to obtaining and assessing outcomes-related performance information. DOTARS' December 2006 and May 2007 advice to ANAO of improvements to Programme administrative arrangements to address issues raised in the course of the audit included a number of changes that could be expected to improve the attention given to obtaining and assessing reports on project outcomes.

Programme evaluation

274. As noted by the Senate Committee in its report, evaluation of individual project outcomes is fundamental to any measure of the success or otherwise of the Regional Partnerships Programme. Similarly, previous ANAO performance audits[92] have highlighted that performance information requirements set out in Funding Agreements should provide information to enable broader programme monitoring, and link with the relevant department's higher-level performance reporting requirements contained in its Portfolio Budget Statements and Annual Report. However, the November 2006 report of DOTARS' mid-term Regional Partnerships Programme evaluation was not informed by analysis of actual outcomes formally advised by funding recipients through the Funding Agreement reporting framework. Instead, in terms of categorising and analysing project outcomes, the evaluation used project assessment and Funding Agreement data of proposed rather than actual outcomes together with surveys of Programme applicants.

275. In addition, during preparations for the introduction of the Regional Partnerships Programme, the then Minister for Transport and Regional Services had agreed to a DOTARS recommendation that the department provide portfolio Ministers with an *Annual State of the Programmes Report* that would comprehensively analyse programme trends and performance against Government's policy objectives. However, the Annual State of the Programmes Report agreed to by the then Minister was not progressed and implemented by the department.

Project costs

276. The extent to which the project budget presented by an applicant for Regional Partnerships funding represents a realistic and reliable estimate of project costs is an important element in any assessment of whether the expected project outcomes are likely to be secured in an efficient and effective manner. In this context, as a funding provider, it is important that DOTARS be an 'informed client' so as to appreciate the circumstances and context in which project proponents prepare their applications for funding (including project cost estimates).[93] However, there were a number of projects in ANAO's sample where it was evident that the department had not obtained sufficient appropriate information on the project budget to inform its assessment of the

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[92] See, for example, ANAO Audit Report No.47 2005–06, op cit., p. 74.

[93] Evans & Peck, *A Review of the reliability of Cost Estimation of QDMR Projects funded under AusLink*, report commissioned by DOTARS, 27 June 2007, p. 37.

application for funding. There were also a number of projects in ANAO's sample where the department had applied insufficient scrutiny to the project cost information provided by the applicant.

277. ANAO's analysis of cost variations for projects in the audit sample revealed that the more substantial cost increases often related to construction projects. In this context, of the 278 applications in ANAO's sample, 164 (59 per cent) involved construction projects. Of the construction projects in ANAO's sample that had been completed, 70 per cent that had submitted a financial acquittal experienced increases in project costs, most of which were significant (up to 177 per cent).

278. The various versions of the DOTARS Internal Procedures Manual in place during the first four years of operation of the Regional Partnerships Programme did not provide guidance to assessors on how they were to identify and evaluate the risk of project cost increases, or the effect of any such increases on the assessment of applications against the Programme criteria. In this respect, two key factors which impact on the project budget for construction projects seeking Regional Partnerships funding are:

- available capacity within the construction industry, having regard to the construction cycle; and
- the level of maturity of the project (and subsequently the project budget) at the time Regional Partnerships funding is sought.

279. However, for the projects in the audit sample, the department's project assessment frequently gave no consideration to these issues prior to making a funding recommendation to the Ministerial decision-maker. For some projects, this meant that the department did not address risks relating to cost estimates being based on broad concepts with no detailed planning having been undertaken to support the calculation of a likely project budget. Other project cost estimates were more rigorous, but DOTARS did not assess the currency of the estimate (which were often quite dated at the time the department's assessment was finalised) and no allowance was made for cost increases that could be expected to have occurred since the time the estimate was formulated. This was notwithstanding the availability of industry publications to assist entities assess the effect on building costs brought about by periodic variations in the rates of labour and materials, together with the effect of building activity and resource availability (that is, market competition).

280. The department also did not have a practice of assessing how the applicant would fund any cost increases, despite the high potential for such increases to occur in construction projects and the potential effect on project and/or applicant viability.

281. In April 2007, DOTARS sought the Ministerial Committee's agreement to a number of changes to improve and streamline the administration of the Regional Partnerships Programme. DOTARS proposed that the high risk of cost escalation for construction projects be addressed not by increased scrutiny of project cost estimates and how applicants proposed to manage the risk of cost increases, but by departmental officials being delegated to approve (within approved limits) requests from project proponents to increase funding to cover increases in construction costs over the life of a project. The Ministerial Committee did not agree to this request.

282. Draft revised internal procedures provided to ANAO by the department in June 2007 required project assessors (when assessing quotes relating to construction project cost estimates) to ensure that the estimate included any projected and/or unforseen cost increases likely to occur between obtaining the estimate and commencement of construction. In addition, DOTARS has advised ANAO that training for assessment staff that will include the scrutiny of application budgets had been scheduled to commence in late October 2007.

Summary agency responses to the audit

283. DOTARS provided the following summary comment on the report:

> DoTARS welcomes recognition by the ANAO of the comprehensive administrative changes made to the Regional Partnerships Programme. DoTARS has been and is committed to continuously improving the programme's management.
>
> It is now over a year since the end of the period reviewed by the ANAO (July 2003 to June 2006) and the operation of the Regional Partnerships programme has altered significantly in that time.
>
> DOTARS commenced implementation of a comprehensive suite of reforms to the programme following the announcement by the Government on 15 November 2005 of major changes to the operation of the programme. These changes included establishing a Ministerial Committee to make funding decisions, centralisation of project assessment and the updating of programme guidelines to provide greater clarity and transparency.
>
> These initiatives have been subsequently supported by the development of a more detailed and prescriptive internal procedures manual to assist over 130 staff involved in administering the programme in 12 different geographic locations. As well DOTARS has provided extensive training for staff and developed a series of practical measures to assist staff such as checklists, templates, a reporting pack, a more detailed funding agreement and introduced case management for more complex projects.
>
> DOTARS accepts the ANAO Report's recommendations noting that two of the recommendations (5 and 7) relate to practices which the ANAO seeks to promote on a whole of government basis, one recommendation (2) is made to the Department of Finance and Administration and three recommendations 10, 12 and 14 will require the agreement of the Government and the Ministerial Committee. DoTARS is actively implementing the remaining recommendations.

284. Finance agreed with Recommendation No. 2 which concerned assessing the merits of a proposed change to the financial framework to require approvers of proposals to spend public money (including grants) to document the basis on which they have concluded that the proposed expenditure represented efficient and effective use of public money, and is in accordance with relevant Commonwealth policies.

Recommendations

Part 2: Application Assessment and Approval Processes

Recommendation No. 1

Paragraph 2:2.24

ANAO *recommends* that, in the design and implementation of discretionary grants programmes, the Department of Transport and Regional Services further strengthen its administrative processes, and provide relevant advice to responsible Ministers in relation to:

(a) the statutory obligations relating to the approval and payment of grants arising under the applicable financial management legislation; and

(b) options for implementing administrative arrangements that satisfy programme policy objectives while ensuring the efficient and effective compliance with all applicable statutory obligations.

Agency response: DOTARS agreed.

Recommendation No. 2

Paragraph 2:2.100

ANAO *recommends* that, as part of its responsibilities for developing and maintaining the Commonwealth's financial framework, the Department of Finance and Administration assess the merits of proposing amendments to the FMA Regulations that would have the effect of requiring approvers to document the basis on which the approver is satisfied that the proposed expenditure:

(a) represents efficient and effective use of the public money; and

(b) is in accordance with the relevant policies of the Commonwealth.

Agency response: Finance agreed.

Recommendation No. 3

Paragraph 2:3.62

ANAO *recommends* that the Department of Transport and Regional Services appropriately qualify its assessment and advice to Ministers in circumstances where the assessment of a Regional Partnerships application has been truncated or expedited.

Agency response: DOTARS agreed.

Recommendation No. 4

Paragraph 2:3.100

ANAO *recommends* that the Department of Transport and Regional Services:

(a) examine, and advise the Ministerial Committee on, options that promote timely announcement of successful applications for Regional Partnerships funding; and

(b) amend its administrative procedures for preparing draft announcement material for approved Regional Partnerships grants to make appropriate reference to any funding conditions.

Agency response: DOTARS agreed.

Recommendation No. 5

Paragraph 2:4.36

ANAO *recommends* that, in the light of Ministers' statutory obligations when approving the expenditure of public money, the Department of Transport and Regional Services advise Ministers of any measures considered necessary in managing the risks to the Commonwealth achieving value for money when acting on election commitments.

Agency response: DOTARS agreed.

Recommendation No. 6

Paragraph 2:5.89

ANAO *recommends* that, in the interests of transparency, accountability and equity, the Department of Transport and Regional Services develop, for consideration by the Ministerial Committee, amendments to the published Regional Partnerships Programme Guidelines documenting the circumstances in which the eligibility and assessment criteria set out in the Guidelines may be waived.

Agency response: DOTARS agreed.

Recommendation No. 7

Paragraph 2:6.18

ANAO *recommends* that, in the interests of accountability, transparency and equity during the assessment and decision-making stages, the Department of Transport and Regional Services develop, for consideration by the Ministerial Committee, procedures for recording the participants and outcomes of any significant meetings or substantive communications that may occur between applicants and Ministers and/or their Offices in relation to Regional Partnerships applications.

Agency response: DOTARS agreed.

Recommendation No. 8

Paragraph 2:6.66

ANAO *recommends* that, in order to enhance the transparency and accountability of the Ministerial consideration of Regional Partnerships applications, the Department of Transport and Regional Services develop procedures to ensure that:

(a) any communications of significance received by the department from the Ministerial decision-maker or his or her Office in respect to an application subsequent to the department providing the Minister(s) with its assessment and funding recommendation are appropriately recorded; and

(b) where a signed Ministerial funding decision is re-considered:

(i) the circumstances that gave rise to that re-consideration are documented; and

(ii) where a previously recorded funding decision is changed, the departmental documentation provides for the Ministerial decision-maker(s) to identify the basis on which the revised decision was made, including any additional inquiries undertaken, or caused to be undertaken.

Agency response: DOTARS agreed.

Part 3: Partnerships and Support

Recommendation No. 9

Paragraph 3:2.62

ANAO *recommends* that the Department of Transport and Regional Services strengthen the governance framework for the approval of minor variations to partnership funding arrangements for approved projects by:

(a) clarifying the extent of any delegation of authority in circumstances where Ministers have approved funding for projects that do not satisfy the indicative partner funding percentages specified in the Programme Guidelines; and

(b) seeking to obtain a revised delegation from the Ministerial Committee in which limits on the delegation are specified in the delegation instrument.

Agency response: DOTARS agreed.

Recommendation No. 10

Paragraph 3:3.103

ANAO *recommends* that the Department of Transport and Regional Services establish a trigger to identify projects warranting further investigation because of the high ratio of partnership funding to Regional Partnerships funding, so as to be better placed to advise the Ministerial decision-maker(s) as to whether the project is likely to proceed without Regional Partnerships funding and, if so, what additional outcomes would be achieved solely through the contribution of the Regional Partnerships funds.

Agency response: DOTARS agreed with qualification.

Recommendation No. 11

Paragraph 3:5.71

ANAO *recommends* that the Department of Transport and Regional Services further improve its management of contracted partner contributions to Regional Partnerships projects by including in Funding Agreements clear provisions to address circumstances where completed projects cost less than was budgeted, including the sharing of any significant cost savings.

Agency response: DOTARS agreed.

Recommendation No. 12

Paragraph 3:5.108

ANAO *recommends* that the Department of Transport and Regional Services promote improved performance reporting in relation to partnership outcomes for the Regional Partnerships Programme by:

(a) using audited financial acquittals for completed projects as the basis for reporting the level of achieved partner co-funding, rather than the anticipated contributions identified in Funding Agreements; and

(b) differentiating between cash and in-kind contributions.

Agency response: DOTARS agreed with part (a) and agreed with qualification with part (b).

Part 4: Identifying, Assessing and Managing Viability Risks

Recommendation No. 13

Paragraph 4:3.48

ANAO *recommends* that, having regard to the value that can be obtained from thorough expert advice regarding relevant financial risks and their effective management, the Department of Transport and Regional Services promote greater attention to the identification and management of viability risks by:

(a) enhancing the recently adopted parameters for deciding when external advice on viability risks relating to particular projects is to be obtained to include explicit consideration of the size and complexity of the overall project, as well as the amount of Regional Partnerships funds being sought; and

(b) where it is proposed to rely on viability assessments undertaken or commissioned by other parties, obtaining a copy of the report of such assessments and developing an understanding of the extent, nature and relevance of the investigations and analysis that underpinned the work.

Agency response: DOTARS agreed.

Recommendation No. 14

Paragraph 4:4.36

ANAO *recommends* that, where incorporated entities apply for Regional Partnerships funding, the Department of Transport and Regional Services better inform its assessment of such applications against the Programme Guidelines by:

(a) amending the application procedures to require these entities to provide, with their application for funding, financial and other information on the corporate entity that is undertaking the project, and any relevant related entities in the corporate group; and

(b) using the information provided by the applicant, together with publicly available information and/or the results of any external viability assessments, to prepare an analysis of the applicant entity and its corporate group in order to better inform an assessment of the value for money that would be achieved through the provision of public money to the applicant.

Agency response: DOTARS agreed with part (a) and agreed with qualification with part (b).

Recommendation No. 15

Paragraph 4:4.84

ANAO *recommends* that the Department of Transport and Regional Services better manage risks to the Commonwealth in relation to Regional Partnerships applications submitted by for-profit entities by explicitly assessing:

(a) whether the project is at an appropriate development stage for funding;

(b) whether the applicant has investigated the availability of relevant alternative funding sources (both debt and equity); and

(c) the terms and conditions attaching to any other contributions for the project.

Agency response: DOTARS agreed.

Recommendation No. 16

Paragraph 4:4.97

ANAO *recommends* that the Department of Transport and Regional Services improve the rigour and reliability of its assessment of viability risks in relation to applications for Regional Partnerships funding received from for-profit organisations by:

(a) enhancing the minimum financial information required to be submitted by for-profit organisations, particularly with respect to the provision of more extensive data on projected cash flows to underpin reliable financial analysis; and

(b) developing procedures for project viability assessment that involve the quantitative analysis of financial information provided by applicants so as to better inform decisions on the merits of approving funding, and the appropriate quantum of funding.

Agency response: DOTARS agreed.

Part 5: Managing for Outcomes

Recommendation No. 17

Paragraph 5:3.52

ANAO *recommends* that the Department of Transport and Regional Services seek to promote equitable access to Regional Partnerships funding by developing, for Ministerial Committee consideration, proposals for more effective promotion of the availability of funding under the Programme including material for all Members of Parliament.

Agency response: DOTARS agreed.

Recommendation No. 18

Paragraph 5:4.69

ANAO *recommends* that the Department of Transport and Regional Services improve its oversight of the timely completion of Regional Partnerships projects by:

(a) completing and implementing planned systems to promote the timely receipt and analysis of progress reports required from funding recipients;

(b) monitoring delayed projects by requiring additional, and possibly more frequent, progress reports from the funding recipient; and

(c) using data obtained from progress reports as the basis for measuring the performance of the Programme in obtaining anticipated outcomes in a timely manner, and the reasons for any delays.

Agency response: DOTARS agreed.

Recommendation No. 19

Paragraph 5:5.37

ANAO *recommends* that the Department of Transport and Regional Services promote the achievement of, and accountability for, outcomes for approved Regional Partnerships projects by:

(a) establishing and reporting against effectiveness targets for the Programme; and

(b) using data reported by funding recipients on the extent to which the project has achieved the outcomes specified in the Funding Agreement (as measured by the contracted performance measures) to:

(i) inform future Programme evaluations, and

(ii) provide more comprehensive reporting in departmental Annual Reports of the achievement of expected project outcomes.

Agency response: DOTARS agreed.

Recommendation No. 20

Paragraph 5:5.69

ANAO *recommends* that the Department of Transport and Regional Services improve its assessment of project budgets supporting applications for Regional Partnerships funding by:

(a) promulgating guidance to potential applicants on the cost estimating standards they are expected to meet together with the circumstances (if any) in which contingency allowances and/or escalation factors may be included; and

(b) developing and delivering training for project assessors that specifically addresses the scrutiny of cost estimates prepared by applicants.

Agency response: DOTARS agreed.