

The Auditor-General
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Performance Audit

Management of the Building Better Regional Cities Program

Department of Social Services

Department of the Environment

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Canberra ACT
17 April 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Social Services and the Department of the Environment titled *Management of the Building Better Regional Cities Program*. The audit was conducted 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 to the Parliament.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

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

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Abbreviations

AEDT	Australian Eastern Daylight savings Time
ANAO	Australian National Audit Office
BBRC	Building Better Regional Cities Program
CGGs	Commonwealth Grant Guidelines
DSEWPac	Department of Sustainability, Environment, Water, Population and Communities
DSS	Department of Social Services (formerly the Department of Housing , Community Services and Indigenous Affairs)
Environment	Department of the Environment (formerly the Department of Sustainability, Environment, Water, Population and Communities)
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FMA Act	<i>Financial Management and Accountability Act 1997</i>
HAF	Housing Affordability Fund
JCPAA	Joint Committee of Public Accounts and Audit
KPIs	Key Performance Indicators
LGA	Local Government Area
MYEFO	Mid-Year Economic and Fiscal Outlook
NRAS	National Rental Affordability Scheme
PBS	Portfolio Budget Statements
SEIFA	Socio-Economic Index For Areas

Summary and Recommendations

Summary

Introduction

1. The former Government introduced three significant programs¹ to improve the supply of affordable housing to low and moderate income households. One of these programs, the \$200 million Building Better Regional Cities (BBRC) program was the subject of this audit. The BBRC program was announced in July 2010 to ‘help build up to 15 000 more affordable homes in regional cities over three years and relieve pressure on our major capital cities, so that Australia can grow sustainably’.

2. The objective for the BBRC program is:

to invest in local infrastructure projects that support an increase in the number of homes for sale and rent that are affordable for working families on ordinary incomes, in communities that are experiencing positive jobs and population growth that need more homes to be built.

3. The program approach involved awarding funding through a competitive application process for local infrastructure projects (such as connecting roads, bridges, upgrades to drains and community centres) that would support new housing developments. Grant applications were required to demonstrate how low to moderate income earners would benefit as a result of upfront development costs being borne by the Australian Government. This included providing assurance to demonstrate how benefits would be passed onto purchasers. Further in this respect, the signed grant agreements specify the total quantity of rebates or subsidies that must be provided to purchasers (as a percentage of the grant amount).

4. The program funding available for grants was halved in the May 2011 Budget to \$100 million as one of a number of spending cuts made to assist in meeting the expected cost to the Australian Government of contributing to the rebuilding of flood-affected regions.² As a consequence, rather than helping to build up to 15 000 more affordable homes, Ministers decided that the program

1 Namely, the National Rental Affordability Scheme (NRAS), the Housing Affordability Fund (HAF) and the Building Better Regional Cities (BBRC) program.

2 During the 2010–11 Australian spring and summer seasons, the eastern states were subject to widespread flooding and Queensland was also impacted by a number of tropical cyclones.

target was to be proportionally reduced to 'help build up to 8000 additional homes'.

5. The amount available for BBRC grants was subsequently increased by \$14.5 million in May 2012 to allow additional BBRC projects from the application round to be funded.

Program administration

6. The then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), now the Department of Social Services (DSS), was initially responsible for the design and implementation of the BBRC. The Administrative Arrangements Order of 14 September 2010 transferred responsibility for the program to the then newly created Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC), now the Department of the Environment (Environment). The effective transfer of responsibility for the program between the two departments, including the associated resources, occurred on 28 October 2010. Environment was responsible for the establishment and design of the program and also commenced the assessment of grant applications.

7. In mid-December 2011, the administration of the BBRC Program transferred back to the DSS. The department's first task was to complete the assessment of applications, and prepare funding recommendations for Ministerial consideration. After funding decisions were made, the department was responsible for negotiating, signing and administering grant agreements with the successful applicants. The department is also responsible for monitoring and reporting of the performance of the various housing affordability programs.

Overview of the funding round

8. There were 47 councils across six states and the Northern Territory identified as eligible to apply for BBRC funding. Applications opened on 7 October 2011 and closed on 18 November 2011. A total of 43 applications were submitted by 36 councils (seven councils submitted two applications). The funding amounts sought ranged from \$0.18 million to \$15 million, with a total of \$331 million in BBRC funding sought across the 43 applications.

9. As a competitive grants program, the published program guidelines included five assessment criteria. The guidelines had emphasised the role that

the assessment criteria were to play in securing the desired outcomes and value for money. Specifically:

The assessment criteria are intended to prioritise projects which meet the objectives of the BBRC Program and which deliver strong outcomes and represent value for money to the Australian Government.

10. Funding recommendations were provided by DSS in late March 2012 to the then Minister for Housing and Homelessness. The department recommended that a total of \$100 million be awarded to 15 applications from 13 councils. The then Minister for Housing and Homelessness did not accept this recommendation and sought further information before making his funding decisions.

11. After receiving a further briefing and following agreement from the then Prime Minister of additional funding for the program, the Minister awarded 17 grants totalling \$113.79 million to 17 councils on 4 May 2012. Funding was approved for 12 of the 15 applications that had been recommended earlier by the department as well as a further five applications that the department had assessed as being less meritorious than those it recommended. The five applications not recommended by the department but approved by the Minister had been assessed as offering 'marginal' value for money for the BBRC funding sought, and had also been assessed as not adequately meeting at least two (and in one instance, each) of the five merit criteria.

12. The approval of \$2.05 million in funding for one application was withdrawn in late June 2012 as the council was unwilling to provide any direct assistance for affordable housing. Accordingly, on 3 July 2012 the then Minister announced funding of \$112.1 million³ to be provided to 16 of the 17 applications that were approved for funding on 4 May 2012.

13. In March 2013, two of the projects that had been approved for funding were terminated and withdrawn respectively (Wagga Wagga and Wyong).⁴ The resulting savings allowed funding of \$12 million to then be approved for a

³ The amount of funding approved had been increased by \$370 000 after one successful applicant identified that an error had been made in the assessment of its application.

⁴ The agreement for the Wagga Wagga project was terminated as council was unable to secure a developer to deliver the project. The approval of funding for the Wyong project was withdrawn without a grant agreement having been signed after the proponent proposed a significant reduction in the number of lots/dwellings to be delivered by the project.

further two projects, located in Ballina and Bunbury. Appendix 2 provides a full list of projects that have been awarded BBRC program funding.

Audit objective, scope and criteria

14. The objective of the audit was to assess the effectiveness of the design and conduct of the funding round for the Building Better Regional Cities Program.

15. The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grant administration framework, including the Commonwealth Grant Guidelines (CGGs) and ANAO's grants administration Better Practice Guide.

Overall conclusion

16. At the completion of the BBRC program application round, 17 grants totalling \$113.8 million were awarded. Three of these projects did not proceed to contract or are no longer under contract, and have been replaced by two other projects. The 16 projects currently contracted under the BBRC program are required to deliver nearly 3000 subsidised lots/dwellings in 15 regional cities, across four states.

17. Key elements of the design of the BBRC program to implement the then Government's policy were effective. Of note was that the BBRC program guidelines outlined that funding would be awarded through a competitive selection process, an approach that is consistent with the Commonwealth Grant Guidelines. In addition, the BBRC program guidelines clearly identified the 47 eligible regional councils and effective steps had been taken to encourage them to apply for funding. Further, the program guidelines outlined the five assessment criteria that were to be used to select those projects that best met the program objective and would deliver strong outcomes and represent value for money. This was supported by the department's documented assessment methodology providing a clear and consistent basis for differentiating between the comparative merits of individual projects.

18. However, the BBRC program has been implemented in a way that gave insufficient attention to the program's objective, the related key performance target (of delivering up to 8000 additional more affordable homes), the program guidelines and the importance of achieving value from the expenditure of public funds. Rather, emphasis was given to spending the program's \$100 million budget, notwithstanding that the recommended applications were expected to deliver less than 3200 additional more affordable homes (a figure 60 per cent below the program target), and that most of the applications had been assessed by the department to lack sufficient merit⁵ and/or as not providing value for money.

19. This situation was compounded when it was decided to apply unpublished eligibility criteria following projects submitted by local governments that had regard to the extent of socio-economic disadvantage, and limiting projects to one per local government. This denied funding to some of the better credentialed applications submitted in response to the program guidelines, and increased the amount of BBRC program funding to be awarded. The result was that \$113.8 million⁶ in BBRC grant funding was awarded to 17 projects that were expected to provide up to 3875 subsidised lots/dwellings, a figure less than half the targeted amount from a \$100 million program, with all but four of the approved applications assessed to have not adequately met at least one of the published merit criteria.

20. The award of program funding in this manner has been reflected in the BBRC program performing poorly in terms of delivering the benefits envisaged when the program was announced, both in relation to the amount of new affordable housing being delivered and the extent of benefits being passed onto purchasers.⁷ In addition, reflecting the quality of those applications approved for funding, a number of projects have not proceeded or have had significant changes to their contracted scope. Also, significant risks relating to project delays have materialised. In particular, only eight of the contracted projects are on track to deliver the BBRC-funded infrastructure works by the original program deadline of 31 March 2014.

5 In particular, a number of projects had been assessed as not meeting the key policy criterion that projects assist communities that are experiencing jobs and population growth and which need more homes to be built.

6 As noted at paragraph 5, additional funds were transferred to the BBRC program (from the Housing Affordability Fund) so as to allow further applications to be approved.

7 In this latter respect, see further at paragraph 33.

21. Against this background, a key message from ANAO audits of grant programs over the years, and highlighted in ANAO's grants administration Better Practice Guides⁸, is that selecting the best grant applications promotes optimal outcomes for least administrative effort and cost. Another recurring theme in the ANAO's audits of grants administration has been the importance of grant programs being implemented in a manner that accords with published program guidelines so that applicants are treated equitably, and those applications that are funded are the most likely to further the program's objectives.⁹

22. Both of the ANAO's recommendations relate to DSS increasing its focus on pursuing value for money outcomes when administering grant programs.

Key findings by chapter

Assessment of Applications (Chapter 2)

Program accessibility and eligibility checking

23. Program access was facilitated through departmental engagement with the 47 eligible councils as well as by encouraging the eligible councils to apply for BBRC program funding. Applications were accepted between 7 October 2011 and 18 November 2011, with a total of 43 applications received. Forty-two of the 43 applications received were considered to be eligible.

24. Some flexibility was employed in the department's eligibility checking processes as more than one-third of applications sought funding for ineligible infrastructure items or project costs. A decision was made to assess the eligible items and disregard any parts of the application that related specifically to ineligible infrastructure or ineligible project costs, with these costs excluded from the recommended project funding. The amount of funding approved by the Minister excluded those amounts identified by the department as ineligible. However, DSS signed a funding agreement that either included ineligible works in the scope of the funding agreement or tied milestone payments to ineligible cost items for seven of the 17 projects (41 per cent)

8 ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 7 and ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, December 2013, p. 3.

9 Similarly, the grants administration framework was developed based, in part, on recognition that potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines.

approved for funding in May 2012.¹⁰ The effect of these approaches was that the Australian Government was funding expenditure identified as ineligible.

Merit assessment

25. The scoring methodology developed and documented for the merit assessment of BBRC applications in terms of the five merit criteria was sound. In particular, the numerical rating scale adopted provided a clear and consistent basis for effectively differentiating between the relative comparative merits of individual applications. In addition, appropriate scoring thresholds were established for each criterion, tailored to reflect statements in the guidelines as to the extent that an application needed to meet a criterion.

26. The department identified early during the assessment process, a high proportion of applications had not met the scoring threshold for one or more of the criteria. In this context, DSS decided that two of the five criteria were of greater importance given that they reflected an application's ability to meet the BBRC program objectives, deliver strong outcomes and provide value with public money for the Australian Government funding that had been sought. However, the different relative importance of the criteria had not been adequately addressed in the program design, such that there had been no weighting of criteria identified in the published program guidelines.

Advice to the Minister and Funding Decision (Chapter 3)

27. In March 2012, DSS provided funding recommendations to the then Minister for Housing and Homelessness. Consistent with the grants administration framework, the briefing package clearly identified to the then Minister those 15 applications the department recommended be awarded BBRC grant funding. Of those 15 applications, four had been assessed as adequately meeting each of the published merit criteria, but the other 11 recommended applications had been assessed to not adequately meet at least one, and as many as three, of the five merit criteria (see further in Table 2.3 on page 58).¹¹

10 The milestone payments tied to ineligible costs were considerable; representing \$14.95 million of the \$41.58 million (36 per cent) contracted to be paid in respect to these six projects. Ineligible costs included: project management fees, design costs and stakeholder consultation expenses, and contingencies or escalation factors associated with construction works.

11 The briefing package also identified that the remaining 28 applications were not recommended for approval, as they were ineligible (one application) or had shortcomings against at least one, if not more of the published merit criteria (the remaining 27 applications).

28. An important matter not adequately addressed by the briefing was the extent to which the recommended applications would provide affordable housing that would enable the program to deliver on its target of up to 8000 additional affordable homes. Assessment records indicate that the expected outcomes from the 15 recommended projects would result in approximately 3120 subsidised lots/dwellings being delivered under the BBRC program. This was some 4880 (more than 60 per cent) less than the program target of up to 8000. However, no advice was provided to the Minister as to whether awarding \$100 million to the 15 recommended projects (of which 11 had not adequately met each of the published merit criteria) to deliver less than half of the program's targeted number of more affordable homes could be considered to provide value with public money.

29. The then Minister did not accept the department's recommendation to award funding to 15 projects. After receiving additional information through a further briefing, the Minister awarded funding to 17 applications, 12 of which had been recommended earlier for funding by the department. In respect to the funding decision:

- unpublished eligibility criteria, that were inconsistent with key design parameters of the program (approved and confirmed by the then Government), were applied by the Minister and this resulted in funding not being approved for three recommended applications.¹² A further two (lower ranked) applications were excluded from the possibility of being awarded funding; and
- the five not recommended but approved applications¹³ had been assessed as offering 'marginal' value for money for the BBRC funding

12 Specifically:

- it was decided that councils that submitted more than one application could only have one of these approved for funding. The program guidelines had advised councils that they could submit up to three applications, and did not include any limit on the number of applications that could be approved. A decision was later taken following representations from one of the two councils particularly affected by this decision to award funding to that council for the second of its two applications. No such action was taken in relation to the second affected council; and
- seven of the 47 (15 per cent) organisations listed in the program guidelines as eligible were excluded from being considered for funding on the basis that they were suffering less from socio-economic disadvantage than other eligible councils. The approach taken meant that seven of the eligible councils could not have been successful in being awarded funding, irrespective of how meritorious their applications were.

13 Under the grants administration framework, these five grants should have been reported to the Finance Minister but departmental advice to Ministers had not identified that these grants required reporting as instances of a Minister awarding a grant that the department had recommended be rejected.

sought. They had also been assessed as not adequately meeting at least two (and in one instance, each) of the five merit criteria. Approving funding for these applications was seen as necessary, otherwise a significant proportion of the available funding of \$114.5 million would not have been allocated.

30. The 17 approved applications were expected, on the basis of the department's assessment, to provide up to 3875 subsidised lots/dwellings. This is less than half of the up to 8000 additional affordable homes that had been approved by the then Government as a key program parameter.

Delivery of More Affordable Housing (Chapter 4)

31. The department was instructed by the then Minister to ensure value for money and adequate affordability outcomes in negotiating grant agreements. This was a challenging task for the department in the circumstances and the efforts achieved mixed results. On a positive note, DSS was able to negotiate an increased number of subsidised lots/dwellings to be contracted for delivery for five projects. Also, for 11 projects, the grant agreement requires that the quantum of rebates/subsidies to be provided to purchasers of the lots/dwellings will total at least 60 per cent of the BBRC grant amount.

32. However, for most projects, the department was unable to negotiate an increase to the number of subsidised lots/dwellings that would be delivered.¹⁴ The outcome was that the 16 projects currently contracted for delivery under the BBRC Program are required to deliver 2969 subsidised lots/dwellings¹⁵ in 15 regional cities across four states. In addition, some funding agreements included additional numbers of houses/lots that councils stated would be supported in being brought forward under the program.

33. Further, the subsidised lots/dwellings contracted for delivery involve a significantly greater cost than had been envisaged when the then Government had decided on the key program parameters. In this respect, each subsidised lot/dwelling involves grant funding of \$38 100, a figure more than three times the 'achievable' figure of \$12 500 per home that underpinned Government

14 For five projects, the signed grant agreement involved fewer lots/dwellings than had been expected when funding was approved. The total reduction was 1582.

15 This figure has not been reduced to reflect projects that have current requests for variations with the department, or projects that the department has identified as being 'at risk of not meeting BBRC objectives'.

decisions on the program parameters. Further, the savings to be passed onto purchasers of the subsidised lots/dwellings are often quite modest in comparison to the grant funding that has been provided. Specifically:

- the total of the subsidies currently contracted to be provided (\$89.74 million) is 21 per cent less than the contracted BBRC funding (\$113.25 million). This ratio is expected to further deteriorate in light of a number of councils indicating to DSS that the housing developments that are being supported by the BBRC funded projects will be unable to provide the contracted quantum of subsidised housing and/or will be seeking to reduce the quantum of the subsidy available to purchasers; and
- for three-quarters of the projects, the contracted subsidies are less than the grant funding that has been provided (on average, a subsidy of some \$30 200 is being provided in return for a BBRC grant of more than \$38 100).

34. Achieving the program outcomes that have been contracted also depends on approved projects being delivered in a timely manner. However, reflecting the quality of those applications approved for funding, the BBRC program has seen the relatively high incidence of approved projects not being contracted and delivered, or having significant changes to their contracted scope and/or delivery timeframes. It has also been commonplace for the signed grant agreements to be varied, including to reflect delays in project progress. The ANAO's assessment is that there are significant risks (not highlighted to date in departmental reporting on the program) that a number of the contracted projects will not deliver the BBRC-funded infrastructure works by 31 March 2014.

35. As at 6 March 2014, only eight of the 16 contracted projects are on track to deliver the completed infrastructure works by the original 31 March 2014 program deadline. Two projects successfully negotiated extended timeframes as part of funding agreement negotiations in May 2013; whereas the six remaining projects are between seven to 30 months behind schedule.

36. Information on BBRC program performance indicators and results has been included in departmental budget statements and annual reports. However, the approach taken has not focused on the extent to which the program is expected to assist councils to help build up to 8000 additional more affordable homes, which is the extant target approved by Ministers. This target

will not be achieved. This situation has been reflected in DSS adopting a performance target for the program of delivering 2000 additional subsidised lots/dwellings.

37. A draft evaluation strategy was developed early in the implementation of the program, but was not finalised. The extent of any evaluation activity, and the approach to be taken, has not yet been resolved, notwithstanding that funding was awarded nearly two years ago and a key program deadline was for infrastructure construction work being funded by the BBRC program to be completed by 31 March 2014.

Summary of agency responses

38. The Department of Social Services' and the Department of the Environment's summary responses to the proposed audit report are provided below, with each department's full response at Appendix 1.

Department of Social Services

I was particularly pleased that the report noted the Department has learnt from the findings of the earlier audit of the Housing Affordability Fund. I also welcomed the comment that the scoring methodology and rating scale provided a clear and consistent basis for the assessment of applications.

The report provides a constructive basis to further strengthen the delivery and performance management of the remaining projects in the BBRC program. The Department accepts the recommendations as presented in the Section 19 report, noting that recommendations will assist us in the design of future programmes. The Department has recently established a centralised Programme Office, which sets the frameworks and business processes to ensure consistent, efficient and effective administration of grants and, over time, administered procurement activities. The Programme Office will be well placed to implement ANAO recommendations where they relate to systemic practices.

The Department agrees with both the recommendations put forward by the ANAO.

Department of the Environment:

The Department of the Environment is grateful for the opportunity to respond to the audit report and notes the audit recommendations. The Department welcomes the ANAO's conclusion that key elements of the design of the Building Better Regional Cities Program to implement the then Government's policy were effective. The Department notes that the audit has identified a few areas for improvement in delivery aspects for which the Department was responsible, and will incorporate these improvements into current and future grants programmes.

Recommendations

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

Recommendation No. 1
Paragraph 3.66

ANAO recommends that the Department of Social Services emphasise the importance of obtaining value for money outcomes in the administration of grant programs by clearly identifying in advice provided to decision-makers:

- (a) the extent to which the population of recommended projects are expected to deliver results that are consistent with the overall program objectives and related performance targets; and
- (b) the merits of not awarding some or all of the available funding where a shortfall in program performance is expected.

DSS' response: *Agreed.*

Recommendation No. 2
Paragraph 4.47

To adopt a greater outcomes orientation in the administration of future grant programs the ANAO recommends that the Department of Social Services:

- (a) at an early stage of program design, develop and endorse an evaluation strategy that is proportional to the significance of the program; and
- (b) reflect key program design parameters and targets in published key performance indicators and report against these.

DSS' response: *Agreed.*

Audit Findings

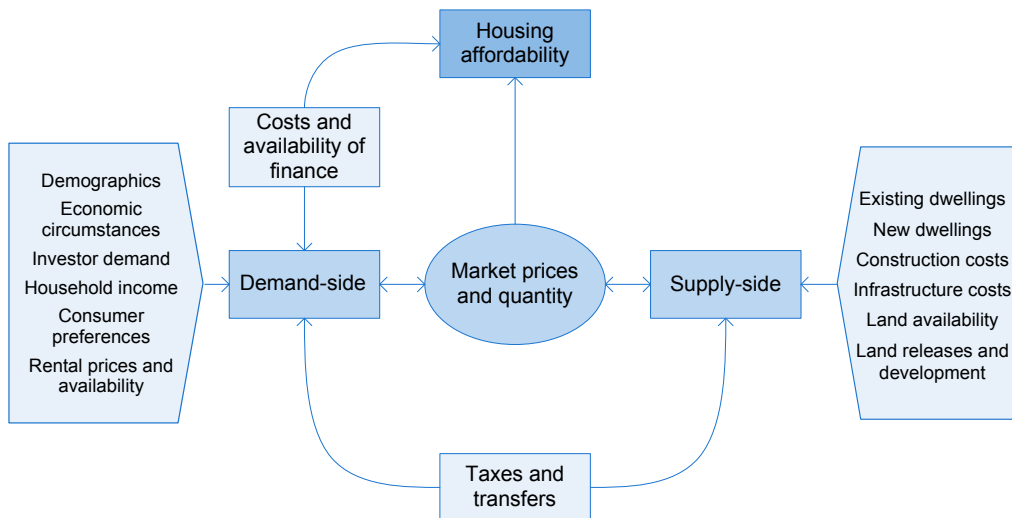
1. Introduction

This chapter provides an overview of the Building Better Regional Cities Program and sets out the audit objective, scope and criteria.

Introduction

1.1 Housing affordability relates to a person's ability to pay for their housing. The affordability of houses is a complex issue that is affected by a wide range of economic and social factors, including house prices, interest rates, levels of household income, inflation, housing availability, as well as consumer tastes and preferences. Figure 1.1 illustrates the relationship between some of the factors influencing housing affordability.

Figure 1.1: Factors influencing housing affordability



Source: ANAO, based on Figure 1.1 in the National Housing Supply Council's *Second State of Supply Report*, April 2010, p. 5.

1.2 The former Government introduced three significant programs to improve the supply of affordable housing to low and moderate income households. Specifically:

- the National Rental Affordability Scheme (NRAS), which commenced in 2008, seeks to address the shortage of affordable rental housing by offering financial incentives to persons or entities to build and rent dwellings to low and moderate income households at a rate that is at least 20 per cent below the market value rent. The initial target was the

supply of 50 000 new affordable rental dwellings, but this was subsequently reduced to a cap of 35 000 to be delivered by 30 June 2014, with the remaining 15 000 dwellings to be delivered in 2015–16.¹⁶ Support is delivered to investors either through direct payments or refundable tax offsets, with estimated funding of \$376 million from 2011–12 to 2014–15;

- the \$500 million Housing Affordability Fund (HAF) was launched on 15 September 2008 by the then Prime Minister and the then Minister for Housing to increase the supply of affordable homes while also reducing their costs. This was to be achieved by reducing the cost of infrastructure works associated with housing developments and by encouraging best practice in state and local government housing development assessment and planning processes¹⁷; and
- on 18 July 2010, the day after the 2010 Federal election was called, the Australian Labor Party announced that it would invest \$200 million in a Building Better Regional Cities (BBRC) program to ‘help build up to 15 000 more affordable homes in regional cities over three years and relieve pressure on our major capital cities, so that Australia can grow sustainably’. The objective of this program is:

to invest in local infrastructure projects that support an increase in the number of homes for sale and rent that are affordable for working families on ordinary incomes, in communities that are experiencing positive jobs and population growth that need more homes to be built.¹⁸

1.3 The planned approach for the BBRC was similar to that under HAF. Specifically, funding would be awarded through a competitive application process to successful applicants for local infrastructure projects (such as connecting roads, bridges, upgrades to drains and community centres) that support new housing developments. The election announcement identified 46 regional cities as being eligible to compete for funding. A subsequent

16 To assist with the rebuilding of flood-affected regions across Australia, the roll-out of NRAS was spread over a longer period and this was reflected in changes to the funding profile for the program outlined in the May 2011 Budget Papers.

17 ANAO Audit Report No.11, 2011–12, *Implementation and Management of the Housing Affordability Fund*, Canberra, 3 November 2011, pp. 16 and 17.

18 In particular, greenfield and infill sites. Greenfield sites are defined as agricultural land or undeveloped sites in a city or rural area; and infill sites are new constructions within an existing built-up (urban) area.

government decision added Lake Macquarie, bringing to 47 the number of regional cities eligible for BBRC funding (see Table 1.1).

Table 1.1: Eligible regional cities

State	Eligible Cities
New South Wales	Albury, Ballina, Bathurst, Cessnock, Coffs Harbour, Dubbo, Gosford, Lake Macquarie, Lismore, Maitland, Newcastle, Nowra, Orange, Port Macquarie, Queanbeyan, Tamworth, Tweed Heads, Wagga Wagga, Wollongong, Wyong
Northern Territory	Palmerston
Queensland	Bundaberg, Cairns, Gladstone, Gold Coast, Hervey Bay, Mackay, Rockhampton, Sunshine Coast, Toowoomba, Townsville
South Australia	Mount Gambier
Tasmania	Burnie, Devonport, Launceston
Victoria	Ballarat, Bendigo, Geelong, Mildura, Shepparton, Traralgon, Wodonga, Warrnambool
Western Australia	Bunbury, Geraldton, Kalgoorlie/Boulder, Mandurah

Source: ANAO analysis of BBRC Application Guidelines.

Program funding

1.4 Funding for the BBRC program was included in the 2010–11 Mid-Year Economic and Fiscal Outlook (MYEFO), released on 9 November 2010. Total program funding of \$203.05 million was made available, comprising \$200 million¹⁹ between 2011–12 and 2013–14 for administered expenses (grant funding) and \$3.05 million for departmental expenses between 2010–11 and 2013–14 to administer the program.

1.5 The program funding available for grants was subsequently halved in the May 2011 Budget. This reduction had been foreshadowed in January 2011 when the then Prime Minister announced that preliminary estimates indicated that the Australian Government would need to contribute \$5.6 billion to the rebuilding of flood-affected regions.²⁰ In that context, the expected cost to the Australian Government was to be met by a flood levy, delaying some infrastructure projects and \$2.8 billion in spending cuts. Those cuts included

19 In large part, this funding was transferred from existing programs, specifically: \$52 million from the HAF and \$146 million from the NRAS.

20 During the 2010–11 Australian spring and summer seasons, the eastern states were subject to widespread flooding and Queensland was also impacted by a number of tropical cyclones.

\$100 million being redirected from the BBRC. There was no change to the funding provided for departmental expenses.

1.6 The \$200 million BBRC election commitment announcement had stated that the program would help local councils build up to 15 000 more affordable homes in regional cities over three years. In May 2011, following the decision to halve the program's funding, this key program parameter was amended to 'the program will help to build up to 8000 additional homes'. The Department of the Environment (Environment)²¹ advised the then Minister for Sustainability, Environment, Population and Communities that this was 'an achievable range for the level of funding committed'.²² The other two key parameters were retained (47 eligible regional cities with up to \$15 million available to each regional city), and one parameter was removed (previously the number of successful applications was to be limited to 15).

1.7 The BBRC program was to originally commence on 1 July 2011 and cease on 30 June 2014. The election announcement had outlined that eligible councils would be able to submit proposals to be assessed on a competitive basis. Grant applications were required to demonstrate how low to moderate income earners would benefit as a result of upfront development costs being borne by the Australian Government. This included providing assurance to demonstrate how benefits would be passed onto purchasers. Further, the grant agreements specify the total quantity of rebates or subsidies that are to be provided to purchasers (as a percentage of the grant amount). However, the BBRC program did not open for applications until October 2011, but program funding is still to cease on 30 June 2014. As the housing component of the program continues until 30 June 2016, grant agreements require the relevant councils to continue to report milestones and progress with projects until that date.

21 As part of the Machinery of Government changes, the Department of the Environment replaced the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC) which had prior responsibility for the BBRC program between September 2010 and December 2011.

22 In her letter of 30 May 2011 agreeing to the then Minister's 14 March 2011 correspondence proposing this change to this key program parameter, the then Prime Minister noted that this (and other) changes represented a 'proportionate revision to the program parameters'.

1.8 The amount available for BBRC grants was subsequently increased by \$14.5 million in May 2012 (by transferring funds from the HAF) to allow additional BBRC projects to be funded.²³

Program administration

1.9 The then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) (now the Department of Social Services, DSS) was initially responsible for the design and implementation of the BBRC. The Administrative Arrangements Order of 14 September 2010 transferred responsibility for the program to the then newly created DSEWPaC (now the Department of the Environment). The effective transfer of responsibility for the program between the two departments, including the associated resources, occurred on 28 October 2010.²⁴ Environment was responsible for the establishment and design of the program and also commenced the assessment of the grant applications that had been received.

1.10 As part of the Administrative Arrangements Order of 14 December 2011, the administration of the BBRC Program transferred back to the then FaHCSIA (now DSS). The department's first task was to complete the assessment of applications, and prepare funding recommendations for Ministerial consideration. After funding decisions were made, DSS was responsible for negotiating, signing and administering grant agreements with the successful applicants. The department is also responsible for monitoring and reporting of the performance of the various housing affordability programs.

1.11 In addition to the various changes in administrative responsibilities for the program, there has been significant turnover of program staff throughout the program's life to date, as well as numerous changes in Ministerial responsibility. Table 1.2 outlines key program milestones and the responsible department and Minister.

23 However, this change was not reflected in DSS' budget reporting until the 2012–13 Portfolio Additional Estimates Statements. Both the 2011–12 Portfolio Additional Estimates Statements and the 2012–13 Portfolio Budget Statements continued to indicate that \$100 million was available for the award of grants (notwithstanding that \$112.1 million in grants had been announced by Ministers on 3 July 2012).

24 ANAO Audit Report No.11 2011–12, *Implementation and Management of the Housing Affordability Fund*, Canberra, 3 November 2011, p. 41.

Table 1.2: Key Program milestones and the responsible department and Minister at that time

Time period	Key program decision	Department	Minister
14 Sep 2010– 11 Dec 2011	<ul style="list-style-type: none"> Decision to remove the program target from the BBRC program guidelines. Guidelines finalised 7 October 2011. Applications opened 7 October 2011 and closed 18 November 2011. Assessment of applications commenced in November 2011. 	DSEWPaC	The Hon Tony Burke MP Minister for Sustainability, Environment, Water, Population and Communities
14 Dec 2011– 5 Mar 2012	<ul style="list-style-type: none"> No key program decisions made during this period as focus was on application assessment. 	FaHCSIA	The Hon Robert McClelland MP Minister for Housing and Homelessness
6 Mar 2012– 4 Feb 2013	<ul style="list-style-type: none"> Application assessment completed and funding recommendations provided to the Minister on 30 March 2012. Minister does not accept funding recommendations and requests that the department rank eligible projects having regard to socio-economic disadvantage. Also decided that only one application from each council could be awarded funding. Minister approved funding for 17 projects on 2 May 2012. Minister requested a review of the City of Bunbury's application following a request from the applicant in November 2012. 	FaHCISA	The Hon Brendan O'Connor MP Minister for Housing and Homelessness
4 Feb 2013– 1 Jul 2013	<ul style="list-style-type: none"> Grant agreement with City of Wagga Wagga terminated in March 2013 Funding for Wyong Shire Council withdrawn in March 2013 Funding for second Ballina project and Bunbury project approved to replace the Wagga Wagga and Wyong projects 	FaHCSIA	The Hon Mark Butler MP Minister for Housing and Homelessness
1 Jul 2013 – 18 Sep 2013	<ul style="list-style-type: none"> No key program decisions were made in this period 	FaHCSIA	The Hon Julie Collins MP Minister for Housing and Homelessness, Community Services, Status of Women, and Indigenous Employment and Economic Development
19 Sep 2013– current	<ul style="list-style-type: none"> No key program decisions have been made to date in this period apart from variations being approved in respect to certain projects. 	DSS	The Hon Kevin Andrews MP Minister for Social Services

Source: ANAO analysis of DSS records.

Overview of the funding round

1.12 The BBRC application guidelines outlined the process for potential applicants to apply for funding; mandatory eligibility criteria; and the administrative requirements that potential applicants had to meet to be eligible to progress to the assessment stage. Eligibility and compliance checks were undertaken concurrently with the assessment of applications against the assessment criteria.²⁵

1.13 The guidelines also outlined the merit assessment process. In particular, the assessment of eligible applications was to be undertaken by two panels, a departmental panel and an expert panel. These panels were to assess the eligible applications against the five criteria outlined in the guidelines:

- Criterion 1–Economic Growth, Housing Need and Supply
- Criterion 2–Infrastructure Delivery and Approval
- Criterion 3–Value for Money and Affordability
- Criterion 4–Good Urban Design and Sustainability
- Criterion 5–Capacity and Compliance

1.14 Forty-seven councils across six states and the Northern Territory were identified as eligible to apply for BBRC funding. Applications opened on 7 October 2011 and closed at 4.00 pm on 18 November 2011. A total of 43 applications were submitted by 36 councils (seven councils submitted two applications, with no council submitting the maximum permitted number of three applications).²⁶ The funding amounts sought ranged from \$0.18 million to \$15 million, with a total of \$331 million in BBRC funding sought across all applications.

1.15 Of the 43 applications received, 42 were assessed as eligible and were then assessed for compliance with administrative requirements. One application was assessed as ineligible, as it did not involve the

25 The Grant Assessment and Selection Plan outlined that the eligibility and compliance checks would be completed separately by the BBRC Program team. However the assessment of eligibility and compliance with administrative requirements was completed concurrently with the assessment of applications against the assessment criteria.

26 Eleven councils did not submit an application for funding. Environment contacted these councils to ensure that they had decided not to submit an application rather than being due to technical issues that had been experienced by other applicants.

construction of any infrastructure, and sought BBRC funding solely for the purchase of land. Whilst some other applications also sought funding to purchase land; these were considered eligible as the proposal also included construction of associated infrastructure, which could be completed within the required BBRC timeframe (31 March 2014).²⁷

1.16 Funding recommendations were provided by DSS in late March 2012, with the department recommending that a total of \$100 million be awarded to 15 applications from 13 councils. This recommendation was not accepted, with the then Minister for Housing and Homelessness seeking further information before making his funding decisions. After receiving a further briefing, on 4 May 2012 the Minister awarded 17 grants²⁸ totalling \$113.79 million to 17 councils. The approval of \$2.05 million in funding for one application was withdrawn in late June 2012 as the council was unwilling to provide any direct assistance for affordable housing.

1.17 On 30 June 2012, in a joint media release with the then Minister for Housing, the then Minister for Regional Australia and the then Member for Page²⁹ announced funding for two successful projects that were located in the electorate of Page. A further media release was issued on 3 July 2012, with Ministers announcing funding of \$112.1 million³⁰ to be provided to 16 of the applications that were approved for funding on 4 May 2012 under the BBRC program.

1.18 In March 2013, two of the projects that had been approved for funding on 4 May 2012 were withdrawn and terminated respectively (Wagga Wagga and Wyong). The resulting savings allowed funding of \$12 million to then be approved for a further two projects, located in Ballina and Bunbury. Appendix 2 provides a list of funded projects under the BBRC program. The

27 A number of the applications sought funding for infrastructure items that would not be completed by the 31 March 2014 timeframe. The Program Manager, in consultation with the Program Business Owner and the Probity Adviser, decided that rather than exclude the entire application from the assessment process, the decision was made to deem the particular infrastructure item(s) which could not be delivered by the 31 March 2014 as ineligible, and assess the eligible components of the application.

28 This comprised 12 applications recommended for funding by DSS and five that had not been recommended for funding by the department.

29 Namely, the Hon Brendan O'Connor MP, Minister for Housing and Homelessness and the Hon Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government and Minister for Arts.

30 The amount of funding approved had been increased by \$370 000 after one successful applicant identified that an error had been made in the assessment of its application.

2013–14 Mid-Year Economic and Fiscal Outlook outlined that the \$1.2 million in uncommitted BBRC program funding would be redirected to the Community Development Grants program.

Audit objective, criteria and methodology

1.19 The objective of the audit was to assess the effectiveness of the design and conduct of the funding round for the Building Better Regional Cities program.

Audit criteria

1.20 To form a conclusion against this audit objective, the ANAO adopted the following high-level criteria:

- application and eligibility assessment processes promoted open, transparent and equitable access to the available funding;
- the merit assessment process identified and ranked in priority order those eligible applications that best represented value for public money in the context of the program objectives and desired outcomes;
- the ministerial decision-maker was well briefed on the assessment of the merits of eligible grant applications, was provided with a clear funding recommendation and the reasons for the funding decisions were transparent (consistent with the requirements of the broad financial framework and the Commonwealth Grant Guidelines);
- the distribution of funding in geographic and electorate terms was consistent with the program objectives and guidelines, and was consistent with funding being awarded on the basis of competitive merit; and
- progress towards achieving the program objective, including the extent to which approved and contracted projects are expected to meet the target of providing up to 8000 additional more affordable homes.

1.21 The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grants administration framework,

including the Commonwealth Grant Guidelines (CGGs) and ANAO’s grants administration Better Practice Guide.³¹

Audit methodology

1.22 In undertaking this audit, the ANAO examined documentation from Environment and DSS, including each of the 43 applications received and departmental records on the design, implementation and administration of the program. In addition, the ANAO interviewed officials from both departments, as well as a number of applicants (both successful and unsuccessful) and undertook site visits to the contracted projects (see examples in Figure 1.2).

Figure 1.2: Examples of approved and contracted BBRC projects



31 The version available at the time of the BBRC program was ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010. The latest version of the Guide is ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, December 2013.

BBRC040 City of Greater Geraldton – Karloo-Wandina Affordable Housing Project



Source: ANAO site visits, September 2013.

1.23 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$439 000.

Report structure

1.24 The structure of the report is outlined in Table 1.3.

Table 1.3: Structure of the report

Chapter	Overview
2. Assessment of Applications	Examines the assessment of the applications received in terms of the published eligibility and merit criteria.
3. Advice to the Minister and Funding Decision	Outlines the advice provided to the decision maker by his department as well as the funding decisions that have been taken. It also examines the distribution of approved funding and compliance with the relevant grant reporting obligations.
4. Delivery of More Affordable Housing	Examines the negotiation and management of grant agreements as well as the extent to which the program is expected to deliver additional lots/dwellings of affordable housing in regional cities.

Source: ANAO.

2. Assessment of Applications

This chapter examines the assessment of the applications received in terms of the published eligibility and merit criteria.

Introduction

2.1 The objective when assessing grant applications is to select those that best represent value for public money in the context of the objective and desired outcomes of the grant program. An appropriately conducted competitive, merit-based grant selection process involves eligible, compliant applications being assessed in the same manner against the same criteria.

2.2 Program access was facilitated through departmental engagement with the 47 eligible councils, as well as by encouraging the eligible councils to apply for BBRC program funding. In particular:

- in June 2011, the department commenced a process of consulting with each of the 47 councils on the draft program guidelines, application form and design of the program³² thereby increasing awareness of the program funding opportunity and encouraging potential applicants to begin the process of identifying potential projects;
- a media release was issued by the then Minister for Sustainability, Environment, Water, Population and Communities on 7 October 2011 announcing that councils in regional centres across Australia were being invited to apply for BBRC funding to support more affordable housing in their communities;
- Environment wrote to representatives of each of the 47 eligible councils providing them with a copy of the Minister's media release and inviting them to apply for BBRC funding; and
- a reminder email was sent to the 47 eligible councils on the application closing date reminding them that applications needed to be received that day.

32 The department convened workshops for the 47 eligible councils in Brisbane, Sydney, Melbourne and Canberra, and organised a teleconference for any representatives unable to attend those meetings. A high number of councils (37) participated in either a face-to-face meeting or teleconference, and 17 councils also provided one or more written submissions.

2.3 Within this context, the ANAO examined the:

- assessment and selection plan;
- application and assessment timeframes;
- assessment of the 43 applications that were received;
- approach taken to assessing the value for money criterion; and
- composition of the merit ranking list.

Assessment and selection plan

2.4 The Commonwealth Grant Guidelines (CGGs) note that agencies should develop policies, procedures and guidelines for the sound administration of grants.³³ Consistent with this guidance, Environment developed a Grant Assessment and Selection Plan. This key document described the assessment process, its governance structure and the documentation that was to be prepared to evidence the assessment approach that was taken. It also outlined how applications would be assessed, and preferred applications selected and recommended for funding. The Plan was approved by the First Assistant Secretary on 14 November 2011, prior to applications closing.³⁴

2.5 As outlined in the BBRC application guidelines and the Grant Assessment and Selection Pan, eligibility checking was to be undertaken by departmental staff in the program team with two panels established to assess applications against the merit criteria. Each panel had six members. The expert panel was chaired by a departmental official with the six members coming from two consulting firms (each supplied three panel members). The members had experience in areas such as economic and social policy analysis and development, urban economics and town planning. The expert panel was commissioned to undertake assessments against the first four merit criteria.³⁵

33 *Commonwealth Grant Guidelines, Policies and Principles for Grant Administration*, Department of Finance and Deregulation, July 2009, pp. 14–15.

34 The BBRC Process and Probity Plan stated that the Grant Assessment and Selection Plan was to be endorsed 'preferably before the application guidelines are issued, but the Grant Assessment and Selection Plan must definitely be signed off before funding applications are opened by either of the assessment panels.'

35 The expert panel only reviewed applications against the first four BBRC assessment criteria. As criterion 5 focused more on the administrative aspects of applications, it was decided that it was more appropriate for the departmental panel to review this criterion.

The expert panel disbanded in December 2011, prior to the program transferring to DSS.

2.6 A probity adviser was also contracted and a probity plan developed for the assessment process. Consistent with the probity plan and the Grant Assessment and Selection Plan, all relevant officers were briefed on their responsibilities in relation to probity and completed declarations of conflict of interest. Members of the expert panel were also briefed on their responsibilities. Two panel members identified conflicts of interest. Where conflicts of interest were identified, they were appropriately managed by the department.

Addressing the program effectiveness target

2.7 An outcomes orientation is one of the key principles for grants administration included in the CGGs. Accordingly, it is important that grant assessment plans include a focus on identifying whether those eligible applications assessed as having the greatest merit will also result in the granting activity achieving its objectives.

2.8 The BBRC Grant Assessment and Selection Plan prepared by Environment did not address the key program parameter of the grant funding helping to build up to 8000 additional affordable homes.³⁶ A consequence of this shortcoming was that the briefing to the then Minister on the outcome of the funding round did not quantify the extent to which the recommended projects would provide additional affordable housing, either in absolute terms or relative to the program target of up to 8000 additional affordable homes (see further at paragraphs 3.13 to 3.16).³⁷ Chapter 4 outlines that the number of additional affordable homes expected to be delivered by the BBRC program is expected to be considerably less than 8000.

2.9 By way of comparison, a good example of an outcomes focus in the planned assessment approach was evident in the ANAO's recent audit of the

36 In February 2014, Environment advised the ANAO that the then Minister for Sustainability, Environment, Water, Population and Communities requested in a meeting on 7 June 2011, that the department remove reference to the program target of 8000 from the BBRC program guidelines. The department also advised the ANAO that for consistency with the program guidelines, the program target was also removed from the Grant Assessment and Selection Plan and Report.

37 For each project, the detailed assessment provided as an attachment to the briefing package included, for that project, discussion of the affordable housing outcomes expected to result, but nowhere in the briefing package did DSS identify the cumulative outcome expected across the program from the recommended projects.

Supported Accommodation Innovation Fund (SAIF), also administered by DSS.³⁸ SAIF had, similar to the BBRC program, been announced during the 2010 Federal election campaign, with the announcement for SAIF stating that up to 150 additional supported accommodation places were expected to be delivered. The program effectiveness target of 150 accommodation places was emphasised in the selection strategy for that program. The merit list prepared on the basis of assessment scores against the published criteria was reviewed before being finalised to identify whether the highest ranking applications would meet or exceed the program target. Where this was not the case, the strategy outlined the steps that were to be taken to try and increase the number of places that would be supported by the available funding, in order to meet the program target. The strategy further outlined that, in circumstances where the department was not satisfied that the highest ranked projects represented value for money and would deliver 150 new places, a new funding round may be recommended.

Application and assessment timeframes

2.10 The Project Plan developed by Environment envisaged a seven week application period, followed by three weeks for the assessment of applications prior to funding decisions being taken by the responsible Minister.³⁹ The Grant Assessment and Selection Plan also envisaged a constrained assessment timeframe. Specifically, the assessment of applications was to be completed and the selection report finalised some three and a half weeks after applications closed.⁴⁰

2.11 The appropriate grant application period was considered as part of the design of the program. Of particular note in this respect was advice from Environment to the then Minister in June 2011 that an application period of less than eight weeks would make it unlikely that eligible applicants would be able to develop good quality proposals. However, the period available to

38 ANAO Audit Report No.41 2012–13, *The Award of Grants Under the Supported Accommodation Innovation Fund*, Canberra, 31 May 2013.

39 The Project Plan had envisaged that applications would be open between 23 September and 11 November 2011, with the Grant Assessment and Selection Report to be completed by 5 December 2011. As it eventuated, applications opened two weeks later than planned (on 7 October 2011) and closed one week later than planned (on 18 November 2011).

40 The timeline included in the Grant Assessment and Selection Plan involved the grant assessment and selection report being finalised by 13 December 2011, with a brief to the Minister to be provided two days later.

applicants to develop their applications was subsequently reduced from the seven weeks proposed at the time eligible applicants were consulted on the draft program guidelines and application form, to six weeks.⁴¹

2.12 The 47 eligible applicants were each able to submit up to three separate proposals meaning that, at most, there would be 141 applications to be assessed. In this context, and having regard to the material required to be provided by applicants, the nature of the published eligibility and merit criteria and the planned assessment process, a three week assessment timeframe could have been expected to prove challenging. However, this was not identified by Environment as a risk to be managed.⁴²

2.13 As it eventuated, considerably fewer applications were received than was expected under the program arrangements (43 applications were received, or 30 per cent of the maximum that could have been received). Nevertheless, the application assessment process took more than four months to complete.

2.14 Had the assessment of applications proceeded in accordance with the planned timeframe of three and a half weeks, this work would have been completed by Environment prior to the 14 December 2011 Administrative Arrangements Order transferring responsibility for affordable housing (including the BBRC program) back to DSS. However, considerable assessment work remained to be completed by DSS. Of note was that:

- the overall quality of applications was considered to be 'low'⁴³, a not unsurprising result given the constrained application period of six weeks;
- questions concerning the eligibility of applications were still being addressed in the middle of February 2012, rather than being finalised (as had been planned) in early December 2011⁴⁴; and

41 In this respect, 12 out of 18 applicants consulted by the ANAO commented that they had difficulty providing the required information in the time that was available and in accordance with the size limits specified by the application form.

42 Environment developed a risk assessment and treatment plan for the BBRC program. It identified five potential risks, only one of which ('aspects of the program or individual projects evoke significant negative stakeholder or media comment, embarrass the department or the Minister') was classified as a medium-level risk after treatment strategies. The risks identified as requiring management did not include any relating to the grant application and assessment timeframes being short.

43 For example, DSS identified that more than a third of applications had not answered all questions in the application form and/or had not submitted 'mandatory' attachments. Other issues identified included exceeding the page limits for attachments and administrative compliance issues.

- a number of applicants were invited to resubmit their response to one of the assessment criteria, as DSS had identified that insufficient applications representing value for money had been received to support the awarding of the \$100 million in available BBRC funding (see further at paragraphs 2.40 to 2.49).

Eligibility assessment

2.15 As noted in the ANAO Better Practice Guide, and reflected in the CCGs, it is important that program guidelines identify any threshold requirements that must be satisfied for an application to be considered for funding. Well constructed threshold or eligibility criteria are straightforward, easily understood and effectively communicated to potential applicants, with the relevant program's published guidelines clearly stating that applications that do not satisfy all eligibility criteria will not be considered.⁴⁵

2.16 The BBRC program guidelines included 'important information' on the selection processes, including advising that:

Only fully completed applications which address both the mandatory eligibility criteria and assessment criteria, and include all required mandatory attachments will be accepted. If not fully completed, applications may be deemed to be non-compliant and may not be considered for funding.

2.17 Further, the section of the BBRC guidelines titled 'Eligibility' clearly identified the program's eligibility requirements. This included identifying the 47 eligible regional cities, as well as the 47 councils (which directly corresponded to the eligible regional cities) that would be eligible to apply for BBRC program funding. The guidelines also outlined rules concerning consortium arrangements and the availability of funding, provided guidance on projects that would not be funded and included the types of infrastructure projects that were eligible. The eligibility part of the guidelines concluded with a section that emphasised what were described as 'mandatory eligibility criteria', namely that applications for funding must:

44 Reflecting this situation, one application (submitted by Gladstone Regional Council) whose eligibility was not resolved until February 2012, was not assessed in terms of the merit criteria by the combined panel (which had met on 12 December 2011). Both the expert panel and the departmental panel had awarded preliminary scores against each criterion, which were then used to arrive at a combined score.

45 ANAO Better Practice Guide, June 2010. op. cit., p. 63.

- be submitted by an eligible organisation;
- be for an eligible infrastructure project that is to be delivered within an eligible regional city; and
- demonstrate that the project can be commenced, and construction of the infrastructure component funded by the Australian Government can be completed, in the period between the project commencement date and 31 March 2014.

Eligibility checking process and results

2.18 Consistent with sound grants administration practice, an eligibility and compliance checklist was developed to record whether all mandatory requirements under the guidelines had been met. Although checklists were included in departmental records for all 43 applications received, Environment’s checklists did not record whether or not compliance and eligibility requirements had been met. Further, none of the 43 checklists had been signed or dated by the BBRC Program Manager (as required by the documented procedures).

2.19 A further departure from the planned approach related to the timing of eligibility checking. Specifically, rather than adopting the approach typically applied in grant programs (which is the approach supported by the ANAO Better Practice Guide and planned for BBRC) of assessing eligibility prior to assessing the merit of eligible applications, a departmental decision was taken by the Program Manager to conduct eligibility checks concurrent with the panels’ merit assessments. Environment recorded that this approach was adopted due to the ‘the tight timelines’ and because ‘it became apparent that it was often necessary to read the entire application to fully understand and to make an informed decision on the eligibility of the proposal’.

2.20 The BBRC program team’s eligibility checking indicated that there were eight ineligible applications. Following review at a more senior level within the department, only one application was assessed as ineligible. This was on the basis that the project funding was sought solely for the purchase of land and did not involve the construction of any infrastructure. While a further seven proposals also included the purchase of land, the assessment was that these were eligible as they included construction of the associated infrastructure needed to support new infill or greenfield housing developments, and the infrastructure could be completed within the required BBRC timeframes. Discretion was exercised to undertake a merit assessment of the eligible

components of these applications, in part reflecting that to exclude these applications in full would have further reduced the field of funding candidates.⁴⁶

Treatment of ineligible infrastructure and project costs

2.21 The Grant Assessment and Selection Report recorded that more than one-third of applications had sought funding for ineligible infrastructure items or project costs (such as project management fees, design costs and stakeholder consultation expenses as well as contingencies or escalation factors associated with construction work). The department's approach was to undertake a merit assessment of these applications, but to disregard any parts of the application that related specifically to ineligible infrastructure or project costs, and that these costs would be excluded from the recommended project budgets. The approach taken was discussed with the probity adviser, and the Grant Assessment and Selection Report flagged to the then Minister that project budgets were to exclude any costs assessed as ineligible.

2.22 For nine of the projects awarded BBRC program funding, DSS had assessed that the project budget should be reduced to remove amounts of ineligible infrastructure or project costs. The amounts involved ranged from a three per cent budget reduction to a 46 per cent reduction (the average reduction was some 21 per cent of the amount applied for). The amount of funding approved by the then Minister for each of these projects excluded the costs identified by DSS as ineligible.

2.23 However, the approach taken by DSS when negotiating funding agreements with the successful applicants departed from the approach that had been foreshadowed. Specifically:

- Port Macquarie—Hastings Council submitted a single application for the construction of a water reservoir to service a planned residential area as well as the construction of a collector road (The Ruins Way). The roadwork project was not assessed as the infrastructure serviced a separate catchment area to that of the water reservoir and DSS considered it should have been submitted as a separate application given it 'comprised two distinct projects'. In addition, DSS identified

46 Three of these applications (submitted by Port Macquarie-Hastings Council, Wollongong City Council and City of Greater Geraldton) were subsequently approved for funding.

that The Ruins Way works involved developer contributions continuing to be collected by the council and being redirected to construction of a roundabout instead of being used to support affordable housing. Accordingly, The Ruins Way project was excluded from assessment, and the application proceeded through the assessment process based solely on the Sancrox Water Reservoir project. However, the department later included The Ruins Way within the scope of the funding agreement⁴⁷; and

- six funding agreements (see Table 2.1) had payments attached to design elements or non-construction elements. This comprised five of the nine projects where the DSS assessment had identified ineligible costs that were removed from the recommended budget, as well as a further project where the assessment had not identified that the project budget included ineligible cost items. The amounts involved were considerable; representing \$14.95 million of the \$41.58 million (36 per cent) contracted to be paid in respect to these six projects.⁴⁸

47 The Ruins Way is defined as part of the project infrastructure works, with the agreement recitals stating that: 'the Commonwealth is providing the Funds to the Organisation to assist with a water storage reservoir, known as Sancrox Reservoir ... and the construction of a collector road (The Ruins Way)'.

48 One project, BBRC017, has a total of \$6.3 million in payments attached to ineligible 'design elements' and will receive all its BBRC program funding (\$11.3 million) by milestone four (June 2014), with \$8.3 million provided prior to commencement of any infrastructure works (June 2014).

Table 2.1: Milestone payments attached to ineligible cost elements

Project	Milestone attached to design element	Payment (\$m)
Projects where ineligible costs removed from recommended budget		
BBRC021	Milestone 3—Finalisation of infrastructure works design and approvals.	2.65
BBRC012	Milestone 4—Commencement of the infrastructure works which includes commencement of the design and tender.	2.00
BBRC027	Milestone 5—Commencement of the design of specified infrastructure works.	1.50
BBRC002	Milestone 4— Completion of the design works for the following: sewerage treatment, recycled water supply infrastructure.	0.50
BBRC017	Milestone 2—Completion of procurement and engagement of infrastructure works project management organisation; Completion of procurement and engagement of infrastructure works external Project Manager; Completion of infrastructure works land and engineering survey; Provision of infrastructure works site feature plan and services plan; and Completion of Residential Works concept plan/report and delivery strategy.	2.30
	Milestone 3—Finalisation of infrastructure works design and approvals including acquisition of land. If acquisition of land as required by sub-clause 6.1 is not achieved by this date, or another date agreed between the parties, then the contract will cease and no compensations shall be owed by either party. Provision of residential works site plans. Report detailing that infrastructure construction is significantly progressed to meet milestone 7.	4.00
Project where ineligible costs not identified at time of application assessment		
BBRC043	Milestone 2—Finalisation of infrastructure works design.	1.00
	Milestone 3—All Approvals for the commencement of the infrastructure works have been obtained.	1.00
Total		14.95

Source: ANAO analysis of BBRC funding agreements.

Program requirement for construction of eligible infrastructure to be completed by 31 March 2014

2.24 As noted at paragraph 2.17, one of the mandatory eligibility criteria related to project timelines. Specifically, applicants were required to demonstrate that the project could be commenced, and construction of the infrastructure component funded by the Australian Government completed, in

the period between the project commencement date and 31 March 2014. To further promote timely program delivery, the program guidelines outlined that successful applicants would have eight weeks after the announcement of successful projects to enter into a funding agreement, otherwise the funding offer may be withdrawn.

2.25 The issue of projects being unable to meet the mandatory eligibility criterion of construction work being completed by 31 March 2014 arose in the context of the assessment of applications. In this respect, probity advice to DSS was that:

Our initial view is that there would be issues from a probity perspective if the department were to decide that infrastructure that can be completed by 30 June 2014 is eligible infrastructure. Such a decision would be inconsistent with a fundamental eligibility criterion specified in the guidelines and evaluation plan. This decision could also, applying the fairness/no disadvantage criteria referred to in section 1 of this advice, require the department to re-assess a number of applications that contained elements that did not meet the 31 March 2014 deadline. Further, there would be a significant risk of complaints by other eligible organisations who did not submit applications for funding on the basis that they considered they could not meet the 31 March deadline but who might contend that they could have met a later deadline (if there were any).

2.26 This issue arose again in the context of finalising a funding agreement with one successful applicant (Maitland City Council). Negotiations were protracted, such that the funding agreement was not finalised until mid-May 2013, more than 12 months after the then Minister for Housing and Homelessness had agreed to the department commencing negotiations with successful councils on a confidential basis. The funding agreement, as signed, involved infrastructure works commencing in June 2014 (rather than being completed by 31 March 2014) with completion in July 2015.⁴⁹

2.27 The timeframes agreed to for this project also necessitated the following amendments being made to the program guidelines in April 2013:

49 Similar to the concerns raised by the earlier probity advice, in advising the then Minister on the revised delivery dates for this project, and his options, the department outlined that approving the revised timelines and amending the guidelines could lead to criticism by other successful councils if they considered there was no longer a level playing field and that Maitland City Council may be perceived as receiving 'special treatment'.

All construction for the infrastructure component funded by the Australian Government must be completed by 31 March 2014 **unless otherwise agreed in writing**, to enable final payments to be made prior to 30 June 2014. **If agreed otherwise in writing the funding recipient must demonstrate that work on the construction is significantly progressed by 31 March 2014.** While it is not mandatory for dwellings to be constructed by 31 March 2014, the Australian Government will be giving priority to projects which see both lots and dwellings delivered within this timeframe. [*ANAO emphasis*]

Assessment criteria and scoring methodology

2.28 The CGGs advise that, unless specifically agreed otherwise, competitive, merit based selection processes should be used, based upon clearly defined selection criteria.⁵⁰ The CGGs also outline that, in the case of a competitive granting activity, assessment criteria are used to determine applicant rankings.⁵¹ Such rankings are also expected to assist:

- agencies to make clear funding recommendations to Ministers about the merits of approving or rejecting proposed grants; and
- Ministers meet their obligation to report those instances where they decide to award a grant that the agency has not recommended.⁵²

Assessment criteria

2.29 The draft program guidelines circulated in June 2011 for stakeholder consultation had included five assessment criteria. As a result of the feedback from stakeholders, some fine tuning of these criteria occurred together with expanded and more precise guidance being provided in respect to each of the criteria. The published guidelines also clearly outlined that:

- the five assessment criteria (see Table 2.2) were intended to prioritise projects that met the program objective and would deliver strong outcomes and represent value for money; and

50 Commonwealth Grant Guidelines, July 2009, op. cit., p. 29 and Commonwealth Grant Guidelines, Second Edition, June 2013, paragraph 4.8, p.26.

51 *ibid.*, p. 65.

52 Guidance from Finance, through Finance Circular 2013/02, is that there are two circumstances of grant approvals that should be reported namely where:

- agency staff have made recommendations that a grant not be approved, and the minister chooses to award the grant; and
- no recommendations have been made, however, a minister chooses to approve a grant where the application did not meet the eligibility and assessment criteria.

- ratings would be awarded based on the merits of each proposal against the assessment criteria.

Table 2.2: Assessment criteria

Criterion	Summary of characteristics required to be demonstrated
Criterion 1— Economic Growth, housing need and supply	<ul style="list-style-type: none"> • strong predicted economic and jobs growth and demand for housing; • land is available for housing; and • infrastructure will support the supply of lots and dwellings to assist meet the identified demand for housing.
Criterion 2— Infrastructure delivery and approvals	<ul style="list-style-type: none"> • demonstrate that projects will be delivered efficiently and cost effectively, including through good project planning; • proposals demonstrated to be ‘investment ready’ will be ‘favourably considered’ in the assessment process.
Criterion 3— Value for money and affordability	<ul style="list-style-type: none"> • project can be delivered at a reasonable whole-of-life cost; • demonstrate how low to middle income earners will benefit from the Australian Government meeting upfront development costs; and • contributions from other sources, or proposals that demonstrate further savings on top of BBRC funding are preferred over those that only pass on savings from BBRC funding.
Criterion 4— Good urban design and sustainability	<ul style="list-style-type: none"> • incorporates the principles of good urban design; and • environmental and sustainability measures will be incorporated into the design and construction of the development.
Criterion 5— Capacity and Compliance	<ul style="list-style-type: none"> • timely project delivery and within the nominated budget; and • qualified and skilled personnel, contractors, sub-contractors, management structure/governance arrangements in place.

Source: ANAO analysis of BBRC program guidelines.

2.30 The guidelines also informed applicants that all of the information provided in the application form and attachments may be considered in the assessment process. The application form supported the merit criteria by identifying what criterion various questions related to.

Scoring methodology

2.31 In the context of assessment criteria being used to determine applicant rankings (as required by the CCGs⁵³), it is important for careful consideration to be given to the method and scale that will be applied in rating and ranking

53 Commonwealth Grant Guidelines, op. cit., p. 65.

individual applications. As outlined in ANAO's Better Practice Guide⁵⁴, the process should:

- provide for the consistent application of the selection process outlined in the published guidelines (including any relative weighting between criteria identified in the guidelines); and
- for competitive selection processes (such as BBRC), be able to effectively and consistently differentiate between projects of varying merit in terms of the selection criteria.

2.32 Attached to the Grant Assessment and Selection Plan was a scoring methodology which provided detailed guidance for the assessment of applications against the five published assessment criteria. As illustrated by Figure 2.1, a numerical rating scale was adopted that provided a clear and consistent basis for assessing applications against the published criteria and effectively differentiated between individual projects. To further aid the assessment process, the scoring methodology broke each criterion down into two or three elements (identified as element A, B and C in Figure 2.1).

54 ANAO Better Practice Guide, June 2010, op. cit., p. 75.

Figure 2.1: Merit assessment scoring methodology

		Unacceptable	Marginal/ Poor	Adequate	Good	Very Good
		0	1	2	3	4
Criterion 1: Economic Growth, Housing Need and Supply						
A	strong predicted economic and jobs growth and demand for housing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B	land available for housing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C	infrastructure proposal will support the supply of lots and dwellings that will contribute to meeting the identified demand for housing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Criterion 2: Infrastructure, Delivery and Approvals						<i>Criterion 1 Score:</i> /11
A	Proposal delivered in an efficient and cost-effective manner, through: <ul style="list-style-type: none"> good project planning 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B	<ul style="list-style-type: none"> identifying and addressing any potential delays or risks to the successful completion of the project; 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C	<ul style="list-style-type: none"> compliant with relevant State and Territory planning and development regulations, benchmarks, policies, plans and strategies; and high level of community support. 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Criterion 3: Value for Money and Affordability						<i>Criterion 2 Score:</i> /10
A	The proposal: <ul style="list-style-type: none"> represents value for money to the Australian Government; promotes the use of resources in an efficient, effective, economic and ethical manner; and will be undertaken in an accountable and transparent manner 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B	How low to moderate income earners will benefit as a result of the upfront development costs being borne by the Australian Government.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Criterion 4: Good Urban Design and Sustainability						<i>Criterion 3 Score:</i> /7
Elements:		0	1	2	3	4
A	the proposal incorporates the principles of good urban design	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B	environmental and sustainability measures will be incorporated into the design and construction of the development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Criterion 5: Capacity and Compliance						<i>Criterion 4 Score:</i> /7
Elements:		0	1	2	3	4
A	Applicants have the capacity to deliver the project on time and within budget, and reasonable steps have been taken to ensure the timeframes proposed for delivering the project are realistic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C	Ability to comply with the terms and conditions in the Draft Funding Agreement.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Criterion 5 Score: /5						

Source: Grant Assessment and Selection Plan, November 2011.

Note: The blue shading indicates scores that are below the minimum threshold (see further at paragraphs 2.33 to 2.35).

Threshold scores

2.33 Assessment criteria are expected to provide a key link between the granting activity’s stated objectives and the outcomes that are subsequently

achieved from the funding provided. It is therefore important that agencies have a clear view as to whether, for each criterion, there is a minimum standard that applications are expected to achieve. Where this is the case, it is important for the guidelines to make this situation clear to potential applicants and for the agency's planned assessment methodology to clearly identify the minimum rating that needs to be achieved against each criterion. It may be appropriate for different minimum scores to be established for each criterion, so long as the approach taken reflects the relative importance of each criterion (as outlined in any weighting of the criteria) to achieving the objectives of the granting activity.

2.34 In this context, the BBRC program guidelines had stated that:

IMPORTANT: Funding is limited. When considering or preparing their applications, applicants should take into account that:

- applications that do not achieve a high assessment rating against Criterion 1 may not be further assessed; and
- applications that are assessed as not adequately meeting any of criteria 2-5 may not be further assessed. [*Emphasis as per guidelines*]

2.35 As foreshadowed by the program guidelines, scoring thresholds were developed for each criterion (as well as for each element of each criterion), as illustrated by the blue shading in Figure 2.1. In addition, and consistent with the guidelines, the threshold set for the first criterion was set at a higher level (requiring an overall score of 'good' for the criterion, as well as for each element of the criterion) than that applied for the remaining criteria (where a score of 'adequate' was required for each element as well as overall for each criterion). The effect of this approach was to select applications that best met the first criterion, which was directly related to the overall program objective.

Weighting of criteria

2.36 The purpose of the assessment criteria is to provide an efficient and effective means of differentiating between the eligible, compliant applications that are seeking access to the available funding. As noted in ANAO's Better Practice Guide, a relevant consideration in this context is whether it would be appropriate to assign relative weightings to individual assessment criteria, in order to target available funding at projects that exhibit characteristics that are

particularly important.⁵⁵ In this respect, criteria that are critical to achieving the objectives of the granting activity should have a higher weighting than those criteria that are not critical.

2.37 The five BBRC assessment criteria were not weighted. As illustrated by Figure 2.1, each of the published criteria was to be scored on a range from zero points ('unacceptable') to a maximum of five, seven, ten or eleven points. As the published program guidelines had not disclosed any weighting for the criteria, in calculating an aggregate score for each application, a simple calculation was undertaken to ensure that the total score for each application (expressed as a percentage of the maximum score that could be achieved) equally weighted each of the criteria.

2.38 However, during the assessment of applications, it became evident to the department that a high proportion of applications did not meet one or more of the scoring thresholds. In this context, DSS undertook a review of the merit criteria to determine whether particular assessment criteria, or elements of some assessment criteria, were of more significance than others as being indicative of an application's ability to meet the program objectives, deliver strong outcomes and represent value to the Australian Government.⁵⁶ The key conclusions from this review were that:

- criteria 2, 4 and 5 related more to how effectively the proposal can be delivered (how the applicant proposes to go about implementing the proposal) as opposed to the outcomes that would result from the project. That is, these factors related to subsidiary implementation issues rather than whether the project would achieve the key program outcomes. As such, DSS considered that any deficiencies or risks in applications relating to these criteria, subject to them satisfactorily meeting the other criteria, could be addressed in any funding agreements that were entered into;
- the extent to which a proposal would support, bring forward or increase housing supply (criterion 1) was identified as a critical factor in determining whether or not a proposal met the objectives of the BBRC program and should be recommended for funding. This was in

55 ANAO Better Practice Guide, June 2010, op. cit., pp. 65–66 and pp. 75–76.

56 The program guidelines had stated that 'the assessment criteria are intended to prioritise projects which meet the objectives of the BBRC program and which deliver strong outcomes and represent value for money to the Australian Government.'

line with the greater emphasis given to, and the higher scoring threshold that was provided for, criterion 1 (particularly in relation to whether the proposed infrastructure will support, bring forward or increase housing supply—element C of criterion 1) in both the application guidelines and in the scoring methodology set out in the assessment plan; and

- criterion 3 (Value for Money and Affordability) was also considered to be an assessment criterion of particular importance because affordable housing outcomes are a key objective of the BBRC program. In addition, the extent to which a project represents value for money is a critical consideration when recommending projects for funding (as reflected in the CCGs and the requirements of the *Financial Management and Accountability Act 1997* (FMA Act)).

2.39 The department decided that criterion 1 (particularly element C), and criterion 3 were of greater importance as they reflected an application’s ability to meet the BBRC program objectives, deliver strong outcomes and represent value with public money to the Australian Government. In these circumstances, it would have been appropriate for the five merit criteria to have been weighted, with criterion 1 and criterion 3 weighted more heavily than the remaining criteria.

Resubmission of responses to the value for money criterion

2.40 As reflected in the CCGs, it is expected that value for money will be a core consideration in determining funding recipients under a grant program. In the context of the grant assessment and selection process, value with public money relates to the extent to which a population of projects, services and/or activities maximises the achievement of the specified objectives within the available funding.

2.41 Based on the assessment work that had been undertaken, DSS considered six applications were suitable for recommending for funding based on their original applications.⁵⁷ These applications involved \$26.14 million in recommended program funding, considerably less than the \$100 million that

⁵⁷ The ANAO notes that some of these applications contained specific ineligible items that the department recommended not be funded (see paragraphs 2.21 to 2.23).

was available. In order to increase the likelihood of being able to spend the available program funding, the department decided that an additional step should be added to the application and assessment process. Specifically, applications rated as being capable of meeting the program objectives, but which required some improvement in terms of providing value for money (criterion 3) in order to be recommended for funding, could be revised and improved by the applicant.

2.42 In consultation with the probity adviser, it was decided that an addendum should be made to the Assessment and Selection Plan to allow a resubmission process to be employed. An addendum was prepared, but departmental records did not include a signed copy of the addendum.

Shortlisting approach

2.43 On 21 February 2012, DSS emailed 15 applicants in relation to 16 applications offering them the opportunity to resubmit their response against criterion 3 (Value for Money and Affordability). These applications had a total score of at least 50 per cent of the maximum that could be achieved, and had also been assessed as achieving a score of 'adequate' or better in relation to element C of criterion 1 (infrastructure proposal will support the supply of lots and dwellings that will contribute to meeting the identified demand for housing). This approach reflected DSS' perspective that:

- criterion 3 was an area where applicants might be able to improve their applications. This was particularly in relation to the proposed level of in-kind and/or cash contributions, and/or the amount of savings passed on compared with the amount of BBRC funding sought. In addition, there was capacity for improved information to be provided in relation to the proposed housing affordability mechanism for some applications;
- a 'total change' to applications would be required in order for scores against element C of criterion 1 to be improved. Accordingly, applications that had not been assessed as adequate against element C of criterion 1 were not invited to participate in the shortlisting process; and
- any identified deficiencies in relation to criteria 2, 4 and 5, subject to the applications satisfactorily meeting the other criteria, could be addressed in the negotiation of funding agreements.

2.44 However, the Grant Assessment and Selection Plan had identified (as set out in Figure 2.1) that applications were to achieve a score of ‘Good’ or better in order to be considered to have met the minimum threshold of 3 for each element of criterion 1, as well as a score of 9 for the criterion overall. However, DSS adopted a lesser standard in its shortlisting process such that the only applications not shortlisted on the basis of their assessment against criterion 1(C) were those that scored ‘Unacceptable’ (0) or ‘Marginal/Poor’ (1).

2.45 Had DSS only shortlisted those applications assessed as meeting its scoring thresholds, there would have been five applicants invited to resubmit their response to criterion 3.⁵⁸ Of note was that there were eleven shortlisted applications that had not met one or more of the scoring thresholds for criterion 1. This comprised:

- nine applications (56 per cent of those shortlisted) that were assessed as having not met the scoring threshold both in relation to element C and criterion 1 overall.⁵⁹ Six of these applications were subsequently approved for funding; and
- two applications had been assessed as not meeting the scoring threshold both in relation to element A and criterion 1 overall. Both were later approved for funding.

Resubmission by applicants

2.46 The applicants invited to resubmit against criterion 3 were informed that there were a number of ‘common deficiencies’ in the shortlisted applications with respect to this criterion. Specifically:

- the level of in-kind and/or cash contributions proposed versus the amount of BBRC funding sought was ‘generally insufficient’ (noting that the passing on of savings generated from the BBRC investment in infrastructure should not be considered as an applicant’s contribution); and/or
- the value of the benefit generated from the BBRC investment in infrastructure that is proposed to be passed on to low to moderate

⁵⁸ Of these, four were later approved for funding.

⁵⁹ Further demonstrating the assessed poor quality of these applications in relation to criterion 1, five of these applications had also been assessed as not meeting the scoring threshold in relation to element A of criterion 1 (‘strong predicted economic and jobs growth and demand for housing’).

income earners, versus the amount of BBRC funding sought was 'generally insufficient'; and/or

- the affordability mechanism and/or the administrative arrangements proposed for ensuring the passing on of savings occurs, and that it is targeted at low to moderate income earners, was 'generally insufficient'. DSS further noted that 'indirect' mechanisms such as 'minimising builders risks' and 'construction of smaller dwelling sizes' in and of themselves, and in the absence of any other mechanisms for ensuring that the proposal would represent value for money, were not considered to be sufficient affordability mechanisms for passing on the savings generated from the BBRC investment in infrastructure.

2.47 The 16 proponents were given nine calendar days to resubmit their response for criterion 3. One of the 16 invited proponents chose not to resubmit its response.

2.48 The department used a spreadsheet to record the results of its assessment of the resubmitted proposals for criterion 3. However, the spreadsheet was incomplete as it only recorded information on 13 of the 15 applications that were resubmitted, as well as for the proponent that did not resubmit a response.

2.49 In addition, the department included in its briefing package to the then Minister for Housing and Homelessness (see paragraph 3.12) its original assessment, and a discussion of its assessment of the resubmitted response. These indicated that:

- nine of the 16 shortlisted applications were now assessed, on the basis of their resubmitted response for criterion 3, as providing 'adequate' value for money. Under the scoring methodology, this should have seen each of these applications awarded a score of four against criterion 3, with the overall score for the application also increasing. However, although DSS did not update the criterion 3 score for any of these applications and the overall score was similarly not adjusted, ANAO's analysis of the extent to which applications had been assessed as meeting criterion 3 was on the basis that the assessment record for each of these nine applications should have reflected a score of four (as illustrated in Table 2.3, ANAO's analysis was on the basis that a score of adequate—4—should have been recorded for each of these applications); and

- the remaining seven shortlisted applications continued to offer only 'marginal' value for money.

The merit ranking list

2.50 Consistent with sound grants administration practice, DSS developed a merit list that ranked the eligible applications in terms of their overall merit assessment score, as well as the scores awarded against each of the five merit criteria. In respect to the scoring methodology, and following the resubmission process for criterion 3, 40 of the 42 eligible applications were assessed as not meeting one or more of the threshold levels set for individual elements for each criterion and the criterion overall.

2.51 Only two applications submitted by the same council (Tweed Shire Council) met all the threshold requirements for each criterion. A further two applications had been assessed as not meeting the threshold requirement for the individual element of one criterion (the first element of criterion 3 for one application, and the second element of criterion 2 for the other application), but the aggregate score for that criterion was sufficiently high to meet the threshold for the entire criterion (due to these applications scoring sufficiently well against other elements of the relevant criteria).

2.52 The program guidelines indicated that thresholds would be set for each criterion, but did not state that each element of each criterion would also have a set scoring threshold. Accordingly, Table 2.3 identifies (in orange highlighting) those 38 applications that had been assessed as not meeting the threshold score for each of the five assessment criteria⁶⁰, but does not highlight those instances where the threshold for one or more elements of a criterion were not met, but the overall criterion threshold was met.⁶¹ Table 2.3 also identifies the four applications assessed as meeting the threshold score for each criterion.

60 Table 2.3 was based on DSS' assessment summaries provided to the Minister, but the scores against the third criterion as well as the total score (as a percentage of the maximum that could be achieved) have been updated to reflect DSS' advice to the Minister that these nine applications now represented 'adequate' value for money and affordability outcomes (equating to a score of four against the third criterion, according to the department's scoring methodology).

61 The yellow and blue highlighting in the table relates to a process undertaken to identify instances where some eligible applicants had submitted more than two applications or whose socio-economic index for areas (SEIFA) score was more than 1000, and therefore they were classified as ineligible to receive funding. The use of SEIFA is discussed further at paragraph 3.24 to 3.28.

Table 2.3: Assessment score and funding outcome for eligible applications

Application	Assessment against merit criteria					Total	Funding recommendation and decision	
	1	2	3	4	5			
BBRC021	10	9	4	6	3	76.8%	Recommended and approved	
BBRC037	9	8	5	4	4	74.1%	Recommended but not approved	
BBRC005	9	7	4	4	5	73.2%	Recommended and approved	
BBRC012	9	6	4	6	4	72.9%		
BBRC011	9	7	5	4	4	72.1%		
BBRC014	9	8	4	3	4	68.4%		
BBRC043	7	7	4	4	4	65.6%	Recommended but not approved	
BBRC041	8	5	4	6	3	65.1%	Recommended and approved	
BBRC018	8	6	4	3	3	58.5%	Recommended but not approved	
BBRC025	9	5	4	3	4	62.4%	Recommended and approved	
BBRC003	7	3	4	5	5	64.4%		
BBRC042	7	6	4	3	4	60.7%		
BBRC040	7	5	4	4	4	61.6%		
BBRC006	9	6	4	4	2	59.2%		
BBRC030	8	4	4	3	5	62.5%		
BBRC015	10	7	2	6	4	71.0%		Not recommended and not approved
BBRC029	8	8	3	4	4	66.5%		
BBRC031	9	4	2	5	4	60.4%	Not recommended but approved	
BBRC002	9	3	2	4	5	59.5%		
BBRC017	7	5	3	3	4	55.9%		
BBRC039	8	6	3	4	2	54.5%		
BBRC033	7	5	3	3	3	51.9%		
BBRC016	7	9	3	3	5	67.9%	Not recommended and not approved	
BBRC044	6	8	3	5	4	65.8%		
BBRC008	7	6	2	5	4	60.7%		
BBRC024	5	8	3	5	3	59.9%		
BBRC038	5	4	3	4	4	53.1%		
BBRC007	2	8	2	4	4	52.8%		
BBRC034	7	3	2	4	4	51.9%		
BBRC028	7	4	2	4	3	49.9%		
BBRC009	5	5	2	4	3	48.2%		

Application	Assessment against merit criteria					Total	Funding recommendation and decision
	1	2	3	4	5		
BBRC027	7	5	2	4	2	47.9%	
BBRC022	8	3	2	4	2	45.7%	
BBRC023	5	3	3	2	4	45.4%	
BBRC010	7	3	2	3	1	37.0%	
BBRC026	6	4	1	4	2	41.2%	
BBRC020	3	3	2	4	3	40.6%	
BBRC013	8	3	1	2	2	37.1%	
BBRC035	8	3	2	2	1	36.0%	
BBRC001	7	2	1	1	3	34.4%	
BBRC036	8	3	2	2	0	32.0%	
BBRC004	4	5	1	1	2	31.0%	

Source: ANAO analysis of DSS records.

Note: Yellow and blue shading for five applications relates to advice provided by DSS to the then Minister concerning the exclusion of certain applications from funding consideration (see paragraphs 3.23–3.42).

Key assessment errors

2.53 There were two significant errors made in the assessment of applications. Each error led to increased program funding being awarded, to address the disadvantage suffered by the affected council.

2.54 The first error came to light during the negotiation of a funding agreement with a successful applicant (Maitland City Council). The assessment summary for this project provided by DSS to the then Minister in March 2012 had identified \$2.5 million of the council’s application for \$13.43 million to realign and upgrade Athel D’Ombrain Drive as being ineligible as it related to project approvals and design development. However, the council advised DSS during the negotiation of the funding agreement that this was an incorrect reading of the application as these costs related to the delivery of the infrastructure (specifically, necessary land purchase for the road design).

2.55 The then Minister agreed to a June 2012 recommendation from the department that grant funding be increased by \$370 000. This amount was \$2.13 million less than the \$2.5 million that had been assessed as ineligible. DSS documentation noted that less funding than had been applied for was required because council had been able to reduce construction costs through a revised standard of road works.

2.56 The second error related to the City of Bunbury application for the Tuart Brook Local Structure Plan Area (see Figure 2.2). The assessment summary for this project provided by DSS to the then Minister had stated that the project would bring forward the supply of only one lot (which would accommodate 60 dwellings) prior to 31 March 2014. The lack of affordable housing outcomes by March 2014 was a key factor in the departmental merit assessment resulting in this application not being recommended for funding.

2.57 Feedback provided by DSS to the applicant as to the reasons it had been unsuccessful had led to council requesting a review of the department’s assessment. DSS subsequently informed the Minister that the original assessment had misinterpreted some information within the application document and inaccurately concluded only one lot would be brought forward in the BBRC program timeframe (rather than 241 lots in the program timeframe, with aggregate subsidies of \$7.23 million to be provided to low to moderate income earners that purchased these lots). The requested funding of \$7 million was subsequently awarded in light of the department’s advice that ‘had this project’s proposing outcomes been accurately assessed, the project would have been recommended by the department, given its high level of return’.

Figure 2.2: City of Bunbury’s Tuart Brook Local Infrastructure Plan Area project



Source: ANAO site visit, September 2013.

Conclusion

2.58 The assessment methodology developed for the BBRC funding round was sound. In particular, the Grants Assessment and Selection Plan established a clear and logical approach to assessing the applications that was consistent with the published program guidelines. In addition, consistent with sound

grants administration practice, the outcome of the assessment process was the development of a merit list that ranked the eligible applications in terms of their overall merit assessment score, as well as the scores awarded against each of the five merit criteria.

Program accessibility and eligibility checking

2.59 Program access was facilitated through departmental engagement with the 47 eligible councils as well as encouraging the eligible councils to apply for BBRC program funding, although the application period was quite short. In the circumstances, there was a reasonable response to the call for applications, with 36 councils (77 per cent of those eligible) submitting 43 applications (30 per cent of the maximum number that could have been received, given each council could have submitted up to three applications). Some flexibility was employed in eligibility checking, with 42 of the 43 applications received considered to be eligible.

2.60 The Grant Assessment and Selection Report prepared by DSS recorded that more than one-third of applications had sought funding for ineligible infrastructure items or project costs. The approach taken by the department was to undertake the merit assessment of these applications, but to disregard any parts of the application that related specifically to ineligible infrastructure or ineligible project costs, with these costs also excluded from the recommended project funding. Consistent with this approach, and in line with the recommendation by DSS, the amount of funding approved by the then Minister excluded those amounts identified by the department as ineligible.

2.61 However, for seven of the 17 projects (41 per cent) approved for funding in May 2012, DSS signed a funding agreement that either included ineligible works in the scope of the funding agreement or tied milestone payments to ineligible cost items.⁶² The effect of these approaches was that the Australian Government was funding expenditure identified as ineligible. In addition, due to delays with one of the approved projects, the program guidelines were amended in April 2013 to relax the mandatory eligibility criterion that had required construction of the infrastructure component funded by the Australian Government to be completed by 31 March 2014.

62 The milestone payments tied to ineligible costs were considerable; representing \$14.95 million of the \$41.58 million (36 per cent) contracted to be paid in respect to these six projects.

Merit assessment

2.62 The scoring methodology for the merit assessment of BBRC applications provided a clear and consistent basis for effectively differentiating between the relative comparative merits of individual applications. In addition, appropriate scoring thresholds were established for each criterion.

2.63 It was identified during the assessment process that a high proportion of applications had not met the scoring threshold for one or more of the criteria. In this context, DSS decided that two of the five criteria were of greater importance. However, the different relative importance of the criteria had not been adequately addressed in the program design, such that there had been no weighting of criteria identified in the published program guidelines.

2.64 DSS identified six 'high scoring' applications⁶³ as being suitable to recommend for funding. These applications had met the scoring threshold for all criteria (four applications) or for all but one of the criteria (two applications). The applications involved \$26.14 million in recommended program funding, considerably less than the \$100 million that was available. In order to spend the available program funding, DSS invited 16 applicants to revise their response to criterion 3 (value for money and affordability outcomes). Fifteen applicants accepted this offer. DSS assessed that the resubmitted responses for nine of these applications provided 'adequate' value for money (and, therefore, met the scoring threshold for criterion 3) but they had, nevertheless, been assessed as not adequately meeting at least one and as many as three of the other criteria.

2.65 There were two significant errors made in the assessment of applications. To address the disadvantage suffered by the affected council, increased program funding was awarded in each instance.

63 These applications had been awarded an aggregate score that ranged from 68.4 per cent to 76.8 per cent of the maximum score that could be achieved.

3. Advice to the Minister and Funding Decision

This chapter outlines the advice provided to the decision maker by his department, as well as the funding decisions that have been taken. It also examines the distribution of approved grant funding and compliance with the relevant grant reporting obligations.

Introduction

3.1 The grants administration framework has a particular focus on the establishment of transparent and accountable decision-making processes when awarding funding. Key aspects include that Ministers do not approve a proposed grant without first receiving agency advice on its merits relative to the program's guidelines (including the published assessment criteria), and that decision-makers record the basis of each grant approval.

3.2 These requirements, together with other related requirements under the framework, do not affect a Minister's right to decide on the award of a grant. Rather, they provide a decision-making framework such that, where Ministers elect to assume the decision-making role, they are well informed on the assessed merits of grant applications. The requirements also seek to promote transparency of the reasons for funding decisions. In this context, the importance of an administering agency providing a Ministerial decision-maker with clear advice has been highlighted recently in ANAO audits and by the JCPAA. In this respect, the JCPAA concluded that:

It is the role of agencies to provide full and considered briefs to Ministers, and to provide 'full and fearless' advice to enable Ministers to make decisions with a clear understanding of all competing factors.⁶⁴

3.3 The briefings prepared by DSS on the BBRC program were informed by the findings and a recommendation in ANAO's audit of the implementation and management of the Housing Affordability Fund (HAF). Specifically, in that audit the ANAO:

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

- concluded that, in both HAF funding rounds, the department had provided advice to the Ministerial decision-maker that was inconsistent with the stated intention of the HAF as a competitive, merit-based program;
- further concluded that neither of the two funding recommendations provided in relation to the second HAF round contained references to the requirements of the grants administration framework to which the Minister was required to have regard; and
- recommended the quality of future grant funding recommendations be improved by including the key requirements relating to the approval of grants contained in the CCGs, as well as an overview of the approach used to assess the relative merits of projects recommended (and not recommended) for funding, highlighting any departures from the program guidelines.⁶⁵

3.4 In addition, shortly before the then Minister was briefed on the results of the BBRC assessment process, DSS was involved in an ANAO cross-portfolio audit of the administration of the grant reporting obligations.⁶⁶ The report for that audit noted that high quality agency advice and briefings are a key underpinning of the grant reporting arrangements, but concluded that the quality and nature of agency briefing practices was variable. In particular:

- a significant proportion of the briefs examined did not clearly identify those proposed grants that the agency recommended for approval, and those that it recommended be rejected;
- it was relatively common for agency briefings to not clearly identify to the Minister that the spending proposal under consideration involved a grant; and/or
- briefings often did not outline the decision-making and record-keeping obligations that apply when approving grants funding.

65 ANAO Audit Report No.11 2011–12, *Implementation and Management of the Housing Affordability Fund*, Canberra, 3 November 2011, pp. 24, 25 and 33.

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

3.5 As part of the response to that report, revised CGGs now⁶⁷ include more specific agency briefing requirements to improve the information provided to Ministers and consistency in briefing practices across government. In particular, this advice is required, as a minimum, to:

- explicitly note that the spending proposal being considered is a 'grant';
- provide information on the applicable requirements of the FMA Act and related Regulations as well as the CGGs;
- outline the application and selection processes, including the selection criteria, that were used; and
- include the merits of the proposed grant or grants relative to the grant guidelines and the key consideration of achieving value with public money.

3.6 In this context, the ANAO examined the advice provided to the Minister and the funding decisions that were taken, including the documented basis for those decisions. ANAO also examined the distribution of grant funding and compliance with reporting requirements.⁶⁸

BBRC decision-making responsibilities

3.7 A feature of the BBRC program has been the number of different Ministers involved in the design, implementation and administration of the program.⁶⁹ Specifically, in the three years between September 2010 and the change of government in September 2013, five Ministers were responsible for the program.

3.8 The October 2011 program guidelines had outlined that funding decisions would be made by the Minister for Sustainability, Environment, Water, Population and Communities (the Hon Tony Burke MP). Applications closed on 18 November 2011 and the assessment process was underway at the time of the Cabinet reshuffle that occurred in the middle of December 2011. Under the new arrangements, the Hon Robert McClelland MP became the

67 The revised CGGs were promulgated in December 2012 to take effect from 1 June 2013 and so were not available at the time DSS was preparing briefings in respect to the award of BBRC program funding.

68 ANAO's analysis was based on the grants administration framework in place at the time decisions were made, and relevant ANAO performance audits completed prior to DSS briefing the then Minister on its assessment of BBRC applications.

69 See Table 1.2 in Chapter 1.

Minister for Housing and Homelessness and assumed responsibility for the BBRC program and other housing affordability programs. As previously noted, administrative responsibility for the program also moved from Environment to DSS.

3.9 The incoming briefing for the new Minister included background information on the BBRC program and its status. The briefing also addressed the quality of the applications that had been received, noting:

The quality of the applications received is disappointing and a significant number of applications have not fully addressed a key assessment criteria. We will address this in the selection report and propose handling.

3.10 The identity of the Ministerial decision-maker changed again before assessment work was completed and recommendations could be provided in respect to the funding round. Specifically, as part of the second Gillard Ministry announced on 5 March 2012, the Hon Brendan O'Connor MP became the Minister for Small Business, as well as Minister for Housing and Homelessness.

3.11 Departmental records indicate that, on 21 March 2012, officials met with the new Minister's office to discuss the outcome of the BBRC funding round. The Minister was provided with information on the program objectives, the published assessment criteria, the assessment process that had been undertaken and the results of the assessment work. In particular, the Minister was advised that the applications received were of 'mixed' quality, as follows:

- six met all criteria;
- 23 which scored above 50 per cent did not meet threshold for one or more key criteria;
- seven applications failed to meet the threshold requirement for both key assessment criterion 1 (C) and criterion 3;
- 16 applications failed to meet the threshold requirement for criterion 3 and were invited to participate in the shortlisting process;
- 13 applications, in addition to failing to meet one or more of the threshold requirements for the key assessment criteria, achieved a total percentage score of less than 50 and were considered to be of too poor quality overall to be considered further; and
- one application was ineligible.

DSS funding recommendation briefing

3.12 On 27 March 2012, DSS provided the then Minister with a briefing package on its funding recommendations for the BBRC application round. The covering minute provided an overview of the program (including its objectives) and outlined the application and assessment processes that had been adopted. The briefing package also included:

- information (summarised in the covering briefing, together with a more detailed attachment) on the Minister’s statutory obligations under the FMA Regulations as well as his obligations under the CGGs;
- a recommendation that funding be awarded to 15 applications from 13 councils identified in an attachment to the briefing;
- an attached summary table of each application received (for the recording of individual funding decisions);
- copies of the individual assessment summaries for each eligible application (including the assessment against the published merit criteria), separated into various groups (see Table 3.1), as follows:
 - 15 recommended applications comprising six ‘high scoring’ projects⁷⁰ and nine applications assessed as providing ‘adequate value for money and affordability outcomes’;
 - 27 ‘not recommended’ applications comprising: seven applications assessed as having ‘marginal value for money and affordability outcomes’; seven applications which ‘did not support or bring forward housing supply’; and 13 ‘poor quality applications which failed to address most assessment criteria’;
- a copy of the merit Assessment and Selection Report;
- a one page summary of projects by state to ‘provide an indication of the distribution of applications and recommended projects’; and
- a copy of the program guidelines (to support the advice in the covering briefing that the assessment process used the published criteria set out in the program guidelines).

⁷⁰ Based on the information in Attachment B of the assessment summaries prepared by DSS, these six projects would have provided 672 subsidised lots/dwellings and a total of 3180 lots and dwellings overall.

Table 3.1: Departmental funding recommendations: 27 March 2012

DSS grouping	Number of projects and applicants	Recommendation in covering minute	Assessment summary category	Merit assessment and selection report
1. High scoring projects meeting all key assessment criteria	Six projects from five councils	Fund 15 applications from 13 councils as set out in the table.	Recommended'	Recommended for funding
2. Shortlisted applications assessed as having adequate value for money and affordability outcomes	Nine projects from eight councils		Recommended	Recommended for funding
3. Shortlisted applications assessed as having marginal value for money and affordability outcomes	Seven projects from seven councils	'You only consider applications from the third group with a requirement to improve the value for money to be delivered during the negotiation of the funding agreement.'	Not Recommended	Not recommended for funding as have 'marginal value for money'.
4. Applications not shortlisted which did not support or bring forward housing supply	Seven projects from seven councils	'As the fourth group does not bring forward housing supply, it would be more difficult to renegotiate an improved outcome as it would involve a change to the application as submitted as part of the competitive tender process.'	Not Recommended	Not recommended for funding as 'of too poor quality in terms of meeting the program objectives and the selection criteria'.
5. Poor quality applications which failed to address most assessment criteria	Thirteen projects from 11 councils	Not recommended for consideration.	Not Recommended	
6. Ineligible	One application	Not recommended for consideration.	Not applicable as did not proceed to merit assessment.	

Source: ANAO analysis of DSS records.

Addressing the program effectiveness target

3.13 Consistent with an outcomes orientation being one of the key principles for grants administration included in the CCGs, it is important that agency funding recommendations explicitly address the extent to which the recommended grants are expected to result in the granting activity achieving its objectives. The benefits of such an approach were evident in respect to the Supported Accommodation Innovation Fund examined in ANAO Audit Report No.41 2012–13. That program, also administered by DSS, was established to deliver at least 142 new places and eight respite places for people with disabilities. Consistent with the importance of this target to the program, the funding recommendation provided to the relevant Minister on 6 March 2012 outlined that the package of applications recommended for approval would meet the program target.

3.14 As outlined at paragraph 2.8, the then Government had set a key target of helping to build up to 8000 additional homes with the \$100 million in BBRC program funding. However, there was no mention of this target in the covering briefing or any other part of the briefing package submitted by DSS. Rather, in respect to the expected outputs and outcomes, the then Minister was advised that:

The recommended projects provide generally for the construction of roads and associated facilities to access green-field sites. By contrast, one of the Ballina projects is for the development of sporting facilities, the Port Macquarie projects provides for a water reservoir, Mandurah provides a pedestrian bridge to access public transport and the Greater Shepparton project is for flood-ways.⁷¹ All recommended projects will provide for additional affordable housing, via various delivery mechanisms, including reductions in purchase price, rates rebates or other methods designed to reduce the total price of lots and/or dwellings.

3.15 However, DSS did not quantify the extent to which the recommended projects would provide additional affordable housing, either in absolute terms or relative to the program target of up to 8000 additional affordable homes. Rather, the department provided information on the affordable housing outcomes expected to result from funding in the individual project assessments, but did not identify anywhere in the briefing package the cumulative outcome expected across the program from the recommended

71 See Figure 4.1.

projects. ANAO analysis of DSS assessment records indicated that the department expected the 15 recommended projects to result in approximately 3120 subsidised lots/dwellings being delivered under the BBRC Program. This was some 4880 (more than 60 per cent) less than the program target of up to 8000 additional more affordable homes and was a matter that should have been drawn to the Minister's attention.

3.16 The significant shortfall in expected program performance against the key program target was not identified in the advice provided to the then Minister. In particular, no advice was provided to the Minister as to whether awarding \$100 million to the 15 recommended projects to deliver less than half of the program's targeted number of more affordable homes could be considered to provide value with public money.

Emphasis given to awarding all available program funding

3.17 As outlined in ANAO's administration of grants Better Practice Guide⁷², it is important for agencies and decision-makers to remain cognisant that only compliant, eligible applications that will demonstrably provide value for the public money involved should be selected for funding. More specifically, the Guide available at the time of the BBRC funding round outlined that applications that do not satisfy the assessment criteria set out in the program guidelines are unlikely to meet the requirements of the financial management and grants policy frameworks and that:

it is not acceptable for applications to be approved in order to exhaust the available appropriation despite insufficient applications of adequate quality being on hand. In some circumstances, it would be prudent for agencies to include advice to this effect in the advice provided to decision-makers (noting that agencies are responsible for advising Ministers on the requirements of the CGGs, and *must* take appropriate and timely steps to do so where a Minister exercises the role of financial approver in grants administration).⁷³

3.18 In this context, and as discussed in Chapter 2, the BBRC program guidelines had emphasised the role that the assessment criteria were to play in securing the desired outcomes and value for money. Specifically:

72 ANAO Better Practice Guide, June 2010, op. cit., p. 82.

73 *ibid.*

The assessment criteria are intended to prioritise projects which meet the objectives of the BBRC Program and which deliver strong outcomes and represent value for money to the Australian Government.

3.19 Against this background, the covering briefing prepared by DSS and the attachments identified six ‘high scoring projects’ that met ‘all key assessment criteria’.⁷⁴ As illustrated in Table 2.3, there was a significant ‘gap’ between the assessed merits of the six highest ranked applications, and the remaining applications. In particular:

- the highest ranked application had been assessed as not meeting the scoring threshold for the fifth criterion; the applications ranked second to fifth were assessed as meeting the scoring thresholds for each of the merit criteria; but the sixth ranked application was assessed as not meeting the threshold for the fourth criterion. By way of comparison, the remaining eligible applications had been assessed as not meeting the relevant scoring threshold for at least two, and in some cases all five, merit criteria. Many of these applications had been assessed as not meeting the relevant threshold for at least one of the two ‘key’ criteria (being criterion 1 and criterion 3); and
- the aggregate scores awarded to the six highest-ranked applications ranged from 68.4 per cent to 76.8 per cent of the maximum possible score that could be achieved. The aggregate scores of the remaining applications were, in many instances, well below these levels.

3.20 The results of the merit assessment process supported awarding funding to those applications ranked second, third, fourth and fifth by DSS, with recommended funding totalling \$16.85 million. In relation to the other two ‘high scoring’ projects:

- the highest ranked application was assessed by DSS to have not addressed ‘some of the key requirements for criterion 5’, which related to applicants demonstrating that they have the capacity to deliver the project on time and within budget. However, DSS recommended that \$6.29 million in BBRC program funding be awarded to this project. Of note is that there was a considerable delay in finalising and signing a funding agreement for this project due to difficulties the council was

74 DSS considered the first (‘Economic Growth, Housing Need and Supply’) and third (‘Value for Money and Affordability’) to be the key criteria.

having in reaching an agreement with the developer. Further, the agreement was terminated in March 2013 notwithstanding various concessions being granted by DSS⁷⁵; and

- the sixth highest ranked application was assessed as not adequately meeting the fourth criterion as it had 'not provided any information on the design of the infrastructure itself or on mandatory measures and non-mandatory measures⁷⁶ for this infrastructure'. This project has proceeded, but did not meet the contracted timelines for the commencement and completion of construction of the new reservoir.

3.21 As outlined at paragraphs 2.40 to 2.49, an additional step was added to the application and assessment process for those applications rated as being capable of meeting the program objectives, but which required some improvement in terms of providing value for money (criterion 3). These applicants were invited to provide a revised submission against this criterion. Although the scores for those applications that were resubmitted were not updated to reflect the revised assessment, for nine applications the assessment summaries provided to the then Minister advised that the revised response to the third criterion represented 'adequate' value for money and affordability outcomes. However, even after adjusting for this revised assessment against one criterion, the assessed merits of each of the nine applications demonstrated that the award of funding to these nine applications was not consistent with the program guidelines. In particular:

- seven of these nine applications had been assessed as not sufficiently meeting the other key assessment criterion (the first criterion, which was particularly important in the context of the program objective as it related to the extent to which a proposal would support, bring forward or increase housing supply). These seven applications had also been

75 Specifically: reducing the number of blocks required to be built from 340 blocks to 250 blocks; it was agreed that the developer could 'roll in 28 blocks from an existing stage'; and an additional \$250 000 in BBRC program funding was awarded for essential infrastructure such as stormwater, earthworks and electrical works.

76 The program guidelines had outlined, in respect to this criterion that proposals should identify the mandatory environmental and sustainability measures that would be incorporated into the design and construction of the development (that is, those required under relevant government legislation and/or planning controls or instruments). The guidelines further outlined that proposals that include non-mandatory (that is, 'best practice') urban design, environmental and sustainability measures would be likely to achieve a higher rating under this criterion.

assessed as not adequately meeting one or two of the remaining three merit criteria; and

- the other two applications in this cohort had been assessed as not adequately meeting one or two of the merit criteria that DSS had identified during the assessment process as not being 'key' (see paragraphs 2.38 to 2.39).

3.22 This situation, as further illustrated by Table 2.3, highlights that, even after some applicants submitted an improved response to criterion 3, the assessed merit of these nine applications in terms of the published program guidelines did not support the awarding of program funding.

Second briefing and grant funding decision

3.23 The Minister signed the 27 March 2012 recommendations briefing from DSS but did not agree to the recommendation that he award funding to the 15 recommended applications. Rather, the Minister annotated the brief as follows:

Please resubmit this brief, ranking eligible projects having regard to socio-economic disadvantage.

3.24 The briefing was returned to DSS on 30 April 2012. Departmental records also outline that, on 30 April 2012, a Ministerial adviser called the department and requested removal of:

- the second project where a local government had submitted two applications; and
- projects submitted by local governments that had a Socio-Economic Index for Areas (SEIFA) score above 1000. This request was consistent with the then Minister's annotation on the 27 March 2012 briefing.

3.25 A further briefing package on the BBRC was provided to the then Minister for Housing and Homelessness on 2 May 2012. In an attachment to this briefing, for each of the 22 highest ranked projects (those in groups 1, 2 and 3 outlined in Table 3.1) the department identified (by blue highlighting) those projects that were the second priority of the applicant as well as (by yellow highlighting) those where the SEIFA score exceeded 1000. DSS confirmed to the ANAO that it did not alter or otherwise update its earlier recommendations as to which projects should be awarded funding. Rather, the department recommended that the Minister:

- note the SEIFA scores;
- note the advice that an increase in the level of BBRC funding may be achievable with an appropriation transfer from the Housing Affordability Fund and sign a letter to the then Prime Minister requesting that this transfer be made⁷⁷; and
- record his decision on each of the identified projects in the relevant attachment to the briefing.

3.26 In this briefing, the department advised the Minister that ‘it is not clear that the use of the SEIFA rankings as a sorting mechanism would be consistent with the program guidelines’ (see further at paragraphs 3.40 to 3.42). The briefing further recognised that geographic spread of funding was not a published criteria for the award of funding, but the department nevertheless indicated to the Minister that he may wish to consider only funding one project from each council in situations where a council had more than one application assessed as sufficiently meritorious to be awarded funding (see further at paragraphs 3.35 to 3.36).

3.27 The Minister made his funding decisions on 4 May 2012, and wrote to the then Prime Minister on that date seeking the transfer of \$14.5 million from the Housing Affordability Fund to the BBRC program.⁷⁸ The Minister initialled 17 applications as having been approved for funding and recorded as follows:

As the funding for the initial program has been halved to \$100 million⁷⁹ I have determined to prioritise the funding of those projects experiencing the highest socio-economic disadvantage. Further, to distribute the opportunities provided by the program I have decided to fund only one project for each municipality.

Further, it is vital, in order to ensure value for money and adequate affordability outcomes, to have appropriate negotiations with councils prior to signing contracts. [*Emphasis as per the Minister’s annotations*]

77 In this respect, the briefing further recommended that the Minister note the department’s advice that approval of BBRC projects beyond the original limit of \$100 million could not occur until the Prime Minister approved the transfer of HAF funds and approval was obtained from a departmental delegate under Regulation 10 of the FMA Regulations.

78 The then Prime Minister provided her approval on 19 May 2012.

79 The decision to halve the original program funding from \$200 million to \$100 million had been made in March 2011 (see paragraph 3.14) and the program guidelines issued in October 2011 outlined the competitive selection process that would be employed in awarding \$100 million in BBRC funding.

3.28 The approved applications were expected, on the basis of DSS' assessment, to provide up to 3875 subsidised lots/dwellings. This was less than half of the up to 8000 additional affordable homes that had been adopted as a key program parameter.

Departures from the program guidelines

3.29 The CCGs outline that, in the case of a competitive granting activity, assessment criteria are used to determine applicant rankings.⁸⁰ In turn, and as outlined in ANAO's grants administration Better Practice Guide⁸¹, these rankings are expected to perform a role in terms of:

- assisting agencies to make clear funding recommendations in the advice they are required by the CCGs to provide to Ministers about the merits of approving or rejecting proposed grants; and
- the associated obligation on Ministers to report those instances where they decide to award a grant that the agency has not recommended.

3.30 However, BBRC funding was not awarded on the basis of the assessed merits of eligible candidates against the published assessment criteria. Rather, two filters were applied to exclude from funding otherwise eligible applications. Specifically, the 17 applications approved for funding excluded the:

- two applications identified by DSS as being the second, lower priority application submitted by a council; and
- three applications identified by DSS where the applicant council's SEIFA score was above 1000.

Councils that submitted more than one application

3.31 The program guidelines advised eligible applicants that:

Applicants can submit up to three separate project proposals each, however each proposal must be submitted on a separate application form. If submitting more than one application, applicants must be mindful that the maximum amount of funding that can be awarded to each successful regional city is capped at \$15 million (GST exclusive). Applicants submitting more than one

80 Commonwealth Grant Guidelines, op. cit., p. 65.

81 ANAO Better Practice Guide, June 2013, op. cit., p. 69.

project proposal must prioritise their project bids, and must ensure that they represent discrete and separate projects, rather than one project broken into several components.

3.32 Of the 36 councils that applied for BBRC funding, the majority (29 or 81 per cent) submitted a single application. The remaining seven councils submitted two applications. No council submitted three applications (the maximum permitted by the program guidelines).

3.33 The 15 applications recommended by DSS for funding related to 13 councils. This reflected that there were two councils where the department recommended that both submitted applications be awarded funding, namely:

- Tweed Shire Council, whose two applications were each assessed as 'high scoring' (see Table 3.1) and were overall ranked second and third on the merit list. The application ranked third (which had sought \$8.36 million in BBRC funding) had been identified by council as a higher priority to council than the application ranked second (which had sought \$574 352 in BBRC funding); and
- Ballina Shire Council, whose two applications had been included in the second grouping of recommended projects (those described by DSS as having 'adequate value for money and affordability outcomes'—see Table 3.1). The higher ranked of these two applications (seeking \$6 million in BBRC program funding was the highest ranked application in the second grouping and seventh overall on the merit list) was identified by council as a lower priority than its second application (which had sought \$4.5 million in BBRC program, and was ranked sixth in the second grouping and 12th overall on the merit list).

3.34 As requested by the Minister's office (see paragraph 3.24), the 2 May 2012 briefing identified (in blue highlighting, as per Table 2.3) the two lower priority projects (from the perspective of the respective councils). On the basis of the information provided by DSS to the Minister in its briefing, funding was not awarded to the two recommended projects that these two council's had identified as their lower priority.⁸²

82 The causal link between DSS identifying these two applications as lower priorities of the respective councils and the decision not to award funding was confirmed in November 2012 advice to the then Minister wherein the department outlined that 'In minute [dated 2 May 2012] you did not select all projects recommended by the department. Two projects were removed, as they were second priority projects for councils that had been successful with their first priority project.'

3.35 The purpose of having councils identify the relative priority of multiple applications was to give effect to the cap included in the program guidelines of a maximum of \$15 million in BBRC funding being awarded to any applicant. A cap of \$15 million on the total amount that could be awarded to each successful regional city had been included in the original election policy announcement. This cap had been reaffirmed as a key program parameter by the then Prime Minister in May 2011 correspondence to the then Minister. In turn, the decision by Ministers to confirm this program parameter had been informed by February 2011 advice from Environment that:

Any reduction in the maximum amount of funding available to successful applicants would be a significant change to the program, and could result in criticism of the original design (that is, the level of funding for each regional city was higher than required).

3.36 DSS did not draw this relevant background to the attention of then Minister for Housing and Homelessness (Minister O'Connor) when providing the information that identified second priority applications, or subsequently. There would have been merit in the decision to exclude from funding high ranking applications that were the second priority project for the relevant council being informed by analysis of the broader program implications given:

- the content of the program guidelines had seen a number of councils invest time and other resources in preparing more than one application⁸³;
- the applications submitted by Tweed and Ballina Shire Councils had sought aggregate BBRC program funding of \$8.94 million and \$10.5 million respectively, in each instance comfortably within the \$15 million program funding cap; and
- the decisions to establish, and reaffirm, the \$15 million program funding cap had been taken prior to the then Minister becoming responsible for the program.

83 For example, Tweed Shire Council records indicate that it had applied resources to submitting successful applications. Specifically, at its 21 June 2011 meeting, Tweed Shire Councillors were provided with copies of the consultation draft of the program guidelines and application form. Council decided to seek expressions of interest from private companies and incorporated not for profit bodies to enter into a consortium arrangement with the council to develop an eligible project and make application to the BBRC program (see <http://www.tweed.nsw.gov.au/Controls/Meetings/Documents/CouncilAgenda21June2011.pdf> and <http://www.tweed.nsw.gov.au/Controls/Meetings/Documents/CouncilMinutes21June2011.pdf>, accessed 27 November 2013).

Subsequent decision to award funding to a council for a second, lower priority project

3.37 Once the decision-maker for a granting activity has taken the decision to approve or not approve funding for a particular application, it is important that any re-consideration or review of that decision be undertaken in a transparent manner, in accordance with the documented decision-making process.⁸⁴ In particular, for competitive programs it is important that any re-consideration of whether to award funding to an unsuccessful applicant has regard to the relative comparative merit of all unsuccessful applications, rather than considering in isolation any requests/complaints that are received.

3.38 DSS' practices in this regard were inconsistent. Specifically, on 28 February 2013 the department briefed its new Minister⁸⁵ on options for unallocated BBRC funds in light of requests received from two unsuccessful applicants:

- feedback provided by DSS to one applicant (City of Bunbury) as to the reasons it had been unsuccessful ultimately led to a review of the department's assessment (see paragraphs 2.56 to 2.57). DSS subsequently informed the Minister that: 'had this project's proposing outcomes been accurately assessed, the project would have been recommended by the department, given its high level of return'. In particular, the department's analysis was that the application should have been ranked eighth overall, at the top of the second group of recommended applications (see Table 3.1). The application was therefore awarded funding as a result of the assessment review; and
- in the same briefing, DSS recommended that funding be awarded to another council (Ballina Shire Council) for its second, lower priority application.⁸⁶ The department informed the new Minister that both of the applications submitted by that council had been recommended for funding, but the former Minister had decided to only award funding

84 ANAO Better Practice Guide, June 2010, op. cit., p. 39.

85 On 2 February 2013, the then Prime Minister announced the details of a new Ministry and Cabinet, brought about following two Ministers announcing their retirement. As a result, on 4 February 2013, the Hon Mark Butler MP became the Minister for Housing and Homelessness.

86 Council had written twice, firstly in July 2012 and again in January 2013 (on the latter occasion, a separate letter supporting council was written by the local Federal member) seeking reconsideration of the decision not to award funding to one of its two applications. This request was on the basis that council understood some of the approved projects were not proceeding. Council had not identified any concerns with the assessment of its application.

for one project per council. The department recommended that the new Minister approve \$5 million⁸⁷ in BBRC funding for this council's second application. The Minister agreed to this recommendation, and a grant agreement was signed. Figure 3.1 illustrates the two Ballina Shire Council projects under construction.

3.39 However, the new Minister was not advised by DSS as to where the second Ballina Shire Council application had ranked on the merit list. The department's advice to the Minister also did not identify that there had been another council whose second (recommended) application had been excluded from funding, or that that council's application had been assessed as considerably more meritorious⁸⁸ than the second Ballina Shire Council application. Further in this respect, sufficient program funding was available for the Minister to have awarded both \$5 million to Ballina Shire Council for its second application, as well as the \$574 352 sought by Tweed Shire Council for its second application.

87 Council had proposed a grant amount of \$5 million rather than the \$6 million originally applied for, and advised that it was 'prepared to propose that Council would proceed immediately with the completion of this project if the BBRC funding was limited to \$5 million. This is a substantial shift in Council's contribution and it does highlight the importance of this project to our region.' No reassessment was undertaken by DSS as to the impact of reduced BBRC program funding on the project. In this respect, the application originally submitted was for a \$12.6 million project with BBRC to contribute \$6 million (48 per cent), but the project budget included in the funding agreement was for an \$8.2 million project with BBRC contributing \$5 million (61 per cent).

88 Specifically, Tweed Shire Council's lower priority application had been ranked second overall, and second in terms of the first grouping (see Table 3.1), having been assessed as meeting the thresholds for all merit criteria and with an aggregate score of 74.1 per cent of the maximum that could be achieved. By way of comparison, the second Ballina Shire Council application had ranked seventh overall, was included in the second grouping, and had been assessed as not meeting the threshold for one of the key merit criteria with an aggregate score of 65.6 per cent. See paragraphs 3.33 to 3.34.

Figure 3.1: Ballina Shire Council projects



Source: ANAO site visits, September 2013.

Councils with a SEIFA score above 1000

3.40 A key aspect of the BBRC program design, consistent with the original 2010 election policy announcement, was that funding would be available to specified regional cities. In the original election policy announcement, 46 regional cities were invited to participate in the program, with a further city, Lake Macquarie being added after the announcement. These regional cities were identified as facing housing pressures due to strong economic, jobs and population growth. The regional cities covered non-capital cities with urban populations over 30 000, along with a small number of cities (Mount Gambier, Burnie and Devonport) included to reflect the differences between states in the size and distribution of population.

3.41 As outlined at paragraphs 1.3 and 2.2, the program guidelines identified 47 eligible councils, and a number of steps had been taken to encourage those councils to apply for BBRC program funding. In addition to contradicting the earlier steps taken to encourage eligible councils to apply for

funding, the decision to exclude from funding consideration those councils that had a SEIFA index score above 1000 was significant in the context of the program design. Specifically:

- seven of the 47 (15 per cent) organisations listed in the program guidelines as eligible to apply could not have been successful in being awarded funding as their SEIFA index was above 1000. This was notwithstanding the earlier encouragement they had received to apply for BBRC funding;
- of those seven organisations, six applied for funding (Gold Coast, Gladstone with two applications, Cairns, Kalgoorlie/Boulder, Townsville and Queanbeyan). A practical impact of the use of the SEIFA index was that these organisations wasted resources in developing an application that could not, given the decision to exclude from funding consideration those with a SEIFA score above 1000, be awarded funding; and
- three applications were excluded solely on the basis of the council's SEIFA score being above 1000. This included the recommended application submitted by Gold Coast City Council which was the third highest ranked of those in the second group (see Table 3.1) and ninth highest ranked overall, with lower ranked applications instead being approved for funding. The other two affected applications (submitted by Sunshine Coast Regional Council and Queanbeyan City Council) were the highest ranked applications in the third group but were overlooked in favour of lower ranked applications within this group (no applications in that group had been recommended for funding by DSS).

Feedback to unsuccessful applicants

3.42 The feedback provided by DSS to unsuccessful applicants did not inform the five affected applicants of the reasons they had not been awarded funding. Rather, the letters stated that applications 'were assessed using the selection processes as set out in Section 5 of the Application Guidelines'. This was correct insofar as the relevant applications were assessed against the published criteria. However, the letters were misleading in that they did not inform the five relevant unsuccessful candidates that:

- there was an additional assessment performed in respect to 22 applications (that is, the six high scoring applications and the

16 'shortlisted' applications) using the SEIFA index and that it was this index, rather than the assessment against the published criteria, that resulted in three applications not being awarded funding⁸⁹; or

- it had been decided that only one grant could be awarded to a council, irrespective of how well credentialed each application had been assessed as being in terms of the published criteria, with the result that two councils did not have their second application approved for funding in May 2012.”

Distribution of funding

3.43 Councils in the six states and the Northern Territory were eligible for funding. The majority of the 47 eligible applicants were located in New South Wales (20), Queensland (10) or Victoria (eight). This was reflected in councils from those states also submitting the most applications (18, 10 and seven respectively). Councils located in New South Wales were the most successful in being awarded funding (10 projects), followed by four projects in Victoria, two in Western Australia and one in Queensland.

3.44 The award of BBRC funding was undertaken through a public, open call for applications. In this respect, and as illustrated by Table 3.2, applications for projects located in electorates held by the Coalition following the 2010 Federal election were less successful in being awarded funding than those located in electorates held by the Australian Labor Party or Independent Members of Parliament. By way of comparison, had funding been awarded in line with DSS' recommendations, the distribution of funding would have been more consistent with the distribution of funding reflected in the population of applications. However, the available evidence is that it was the decision to apply unpublished eligibility criteria (see paragraphs 3.31 to 3.41) that led to this situation, rather than funding being awarded based on the electoral location of projects.

89 In September 2013, DSS advised ANAO that: 'In our minute [of 2 May 2012], the department clearly stated our concern that the use of SEIFA was not consistent with the program guidelines'. However, this situation was not reflected in the letters to applicants which indicated that the award of funding had occurred in accordance with the guidelines.

Table 3.2: Distribution of funding by political party

Party holding the electorate in which the project was located	Applications received		Applications recommended		Applications approved	
	# (%)	\$m (%)	# (%)	\$m (%)	# (%)	\$m (%)
Australian Labor Party	20 (46)	125.3 (38)	7 (47)	42.2 (42)	8 (47)	57.8 (51)
Coalition	21 (49)	186.8 (56)	7 (47)	54.8 (55)	7 (41)	42.7 (37)
Independent	2 (5)	19.3 (6)	1 (6)	3.0 (3)	2 (12)	13.7 (12)
Total	43 (100)	331.4 (100)	15 (100)	100.0 (100)	17 (100)	114.2 (100)

Source: ANAO analysis of DSS records.

Grant reporting obligations

Ministerial reporting

3.45 The then Minister, as a member of the House of Representatives, was required by the CCGs to report to the Finance Minister instances where he approved a grant within his own electorate. As an outer metropolitan electorate, there were no eligible regional cities located within the then Minister's electorate of Gorton. Accordingly, there were no grants sought or awarded in relation to the Gorton electorate.

3.46 The Minister was also required by the CCGs to report annually by 31 March to the Finance Minister on any instances where he approved a grant not recommended by his department, with this reporting to include the basis for his decision. In the context of this reporting obligation, the importance of funding briefs including a clear recommendation as to whether each grant should be approved or rejected, having regard to the program objectives and available funding, was emphasised in ANAO's audit of the administration of grant reporting obligations tabled on 24 January 2012.⁹⁰ On 6 February 2012, DSS' Program Frameworks Branch reminded the Housing Affordability Programs Branch of the relevant ANAO audit recommendation. In this respect, in September 2013 DSS commented to the ANAO that:

The program guidelines indicated that the department would make recommendations to the Minister which we did in *[the brief dated 27 March 2012, as discussed at paragraphs 3.12 to 3.23]*. The Minister, in exercising his

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

discretion, rejected our recommendations and sought further information on SEIFA scores and subsequently made his decision on the basis of the information provided.

3.47 Specifically, of the 17 grants awarded by the then Minister on 4 May 2012, five had not been recommended for funding by the department. Each of these five applications had been included in the third grouping identified by DSS in its 27 March 2012 recommendations briefing as being applications assessed as having ‘marginal value for money and affordability’ (see Table 3.1). The briefing package categorised these applications as ‘Not recommended’ with the Grant Assessment and Selection Report (included in the briefing package) similarly identifying applications in the third grouping as ‘not recommended for funding’. This recommendation was consistent with the department’s merit assessment, as each of these five applications had been assessed as not meeting at least two of the merit criteria to the necessary minimum standard and, in one instance, did not meet the relevant threshold for any of the merit criteria (see Table 2.3).

3.48 The report for the then Minister for Housing and Homelessness to the Finance Minister in respect of calendar 2012 grants was provided on 8 April 2013 by the then Minister for Families, Community Services and Indigenous Affairs. This report stated that the department had not identified any instances in calendar 2012 where the then Minister for Housing and Homelessness had approved grants which it had recommended be rejected. In October 2013, ANAO drew to the department’s attention that five BBRC grants should have been reported to the Finance Minister.

Website reporting of individual grants

3.49 Website reporting of individual grants was introduced to promote transparency and accountability.⁹¹ At the time the BBRC funding decisions were made, the requirement to publish information on individual grants was set out in the July 2009 CGGs. Each agency was to publish on its website

91 Mr Peter Grant PSM, *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008, p. 10.

information on individual grants no later than seven working days after the grant agreement for the grant took effect.⁹²

3.50 In May 2013, ANAO completed an audit of another DSS grant program, the Supported Accommodation Innovation Fund (SAIF).⁹³ That audit was undertaken following a request in February 2013 from Mr Jamie Briggs MP, the Member for Mayo, who was at the time the Shadow Parliamentary Secretary for Supporting Families and Coalition Spokesperson on Scrutiny of Government, raising concerns about the distribution of SAIF funding in electoral terms. Similar concerns were subsequently reported in the media.⁹⁴ This perception arose due to errors in the department's website reporting on the locations in which funding was being provided.

3.51 That audit also identified that DSS' website reporting of SAIF grants had included an incorrect date for each grant. DSS agreed to an ANAO recommendation that it adjust its website reporting of individual grants to align with the required source and nature of data specified under the grants administration framework. As outlined below, similar issues to those that arose in relation to the SAIF program were evident for BBRC grant reporting, as well as some additional errors.

Reporting of grants awarded and contracted

3.52 Of the 17 projects awarded grant funding by the then Minister on 4 May 2012, 15 had a grant agreement executed. Of those projects, 13 were reported on the DSS website. In relation to the remaining two projects:

- there was no reporting of the grant agreement for the Wagga Wagga Brunslea Park project signed on 24 December 2012; and
- the original project approved for the Tweed Shire Council related to the delivery of 158 dwellings located in Tweed Heads South for a project titled 'Homesteads at Fraser Drive'. A grant agreement for this project

92 Up until May 2013, guidance on the information to be published in respect to each grant, and a template to be used for reporting purposes, was outlined in Finance Circular 2009/04 *Grants—Reporting Requirements* released in June 2009. That guidance was updated in May 2013 through Finance Circular 2013/02 *Australian Government Grants: Briefing and Reporting*. The information required to be reported on agency websites, for each grant, is outlined in that Circular.

93 ANAO Audit Report No.41 2012–13, op. cit.

94 The concerns expressed publicly about the outcome of the grants awarded under the SAIF related to the electorate distribution of the approved funding, which appeared to be particularly favourable to the Australian Labor Party and, to a lesser extent, the Australian Greens.

was signed on 28 June 2012, but was not reported by DSS. Rather, the department has reported the scope of works for a replacement project located in Murwillumbah (called the 'Hundred Hills Development') for which a grant agreement was signed on 20 June 2013.

3.53 The two additional projects that were approved for funding in March 2013 (see paragraphs 3.37 to 3.39), with grant agreements entered into in April and May 2013, have been reported on the DSS website.

Date grant agreement takes effect

3.54 Between May and November 2012, DSS issued formal letters of offer to 16 projects approved by the Minister in May 2012. For the two additional projects approved for funding by the then Minister in March 2013, letters of offer were issued in March 2013.⁹⁵ The grant agreements for the successful projects were subsequently executed on 12 dates between 26 June 2012 and 22 May 2013.

3.55 Similar to the previous ANAO audit, DSS' website reporting of BBRC grants included an incorrect date for each grant. Specifically, the department did not report the date that each grant agreement took effect but, rather, related more closely to the date the decision had been taken to award a grant, as follows:

- 15 grants were reported with 9 May 2012 as being the date the grant agreement took effect (the funding decisions had been taken on 4 May 2012). However, the funding agreements were signed on nine different dates between 26 June 2012 and 20 May 2013; and
- grant agreements for the two projects approved on 18 March 2013 were entered into on 11 April 2013 and 22 May 2013 respectively, but the reported dates of effect for these two projects were 18 March 2013 (Bunbury project) and 21 March 2013 (Ballina).

Grant value

3.56 Agencies are required to report as the grant value the total funding approved for the grant across all years of the grant in whole dollars, Goods

95 The initial letter to the City of Bunbury on 25 March 2013 stated funding of \$5 million, although it had been awarded \$7 million. A second letter was sent by the department on 28 March 2013 with the correct funding amount.

and Services Tax inclusive.⁹⁶ DSS reported the funding amounts as required. The amounts reported on the website at the time of audit analysis (October 2013) also reflected any approved increases to the value of the grant (above that originally approved in May 2012 by the then Minister for Housing and Homelessness).

Grant location

3.57 Also similar to the situation observed in the SAIF audit, DSS reported the locations in which BBRC funding was being provided according to where the project proponent was located, rather than where the relevant infrastructure and housing project was located. In some cases, there was no difference between these locations. However, for six of the 16 final projects approved under the BBRC program the reported data related to the postcode and suburb for the project proponent, which was different from the location of the infrastructure and housing being constructed.

Conclusion

3.58 Funding recommendations at the conclusion of the application round were provided by DSS in March 2012 to the then Minister for Housing and Homelessness. Consistent with the grants administration framework and drawing directly from the merit ranking list, the briefing package clearly identified to the then Minister those 15 applications the department recommended be awarded BBRC grant funding, and that the remaining 28 applications were not recommended for approval.

3.59 The results of the merit assessment process, including the department's assessment of revised responses submitted by certain applicants to criterion 3, supported the awarding of \$16.85 million in BBRC program funding to four applications. DSS recommended that these applications, together with 11 other applications, be awarded a total of \$100 million (the maximum amount available at the time). The 11 additional applications had been assessed by DSS as having shortcomings against at least one of the published merit criteria but were, nevertheless, recommended for funding in order that the full amount of the available program funding could be spent.

96 Department of Finance and Deregulation, *Finance Circular 2009/04, Grants-Reporting Requirements*, 29 June 2009, p.5.

3.60 DSS did not quantify the extent to which the recommended projects would provide additional affordable housing, either in absolute terms or relative to the program target of up to 8000 additional affordable homes. Rather, the department provided information in the individual project assessments attached on the affordable housing outcomes expected to result from funding, but did not identify anywhere in the briefing package the cumulative outcome expected across the program from the recommended projects.

3.61 The assessment records indicated that the department expected the 15 recommended projects would result in approximately 3120 subsidised lots/dwellings being delivered under the BBRC program. This was some 4880 (more than 60 per cent) less than the program target of up to 8000. However, DSS did not provide the Minister with advice as to whether awarding \$100 million to the 15 recommended projects to deliver less than half of the program's targeted number of more affordable homes could be considered to provide value with public money.

3.62 The department's recommendation to award funding to 15 projects was not accepted by the then Minister. As previously indicated, after receiving additional information through a further briefing, the Minister awarded funding to 17 applications, 12 of which had been recommended for funding earlier by the department. Unpublished eligibility criteria, that were inconsistent with key design parameters of the program (approved and confirmed by the Government), were applied by the Minister. As a consequence, funding was not approved for three of the department's recommended applications and two other (lower ranked) applications were also excluded from the possibility of being awarded funding. Specifically:

- although eligible applicants had been invited and encouraged to submit up to three applications, a decision was taken that only one grant would be awarded to any one council, irrespective as to the assessed merit of the applicant's other applications. In this context, two of the only four applications assessed by DSS as sufficiently meeting each of the merit criteria had been submitted by one council, but only one of these applications was awarded funding, with funding instead being awarded to other less meritorious candidates; and
- a key aspect of the BBRC program design, consistent with the original 2010 election policy announcement, was that funding would be available to 47 specified regional cities, and a number of steps had been

taken to encourage those councils to apply for BBRC program funding. However, it was decided that councils with a Socio-Economic Index for Areas (SEIFA) score above 1000 would not be awarded any funding. This meant that seven (15 per cent) of the 47 organisations listed in the program guidelines as eligible to apply for funding could not be awarded funding as their SEIFA index was above 1000 (irrespective as to how meritorious their application was). Of note was that three of the applications received were excluded from funding solely on the basis of their SEIFA score being above 1000.

3.63 The remaining five approved applications had been assessed as offering 'marginal' value for money for the BBRC funding sought, and had also been assessed as not adequately meeting at least two (and in one instance, each) of the five merit criteria. Approving funding for these five applications was seen as necessary otherwise a significant proportion of the available funding of \$114.5 million would not have been allocated.⁹⁷

3.64 The 17 approved applications were expected, on the basis of the department's assessment, to provide up to 3875 subsidised lots/dwellings. This was less than half of the up to 8000 additional affordable homes that had been approved by the then Government as a key program parameter.

3.65 Aspects of the grant reporting obligations that were introduced in 2009 to promote transparency and accountability have not been met. In particular, the five grants 'not recommended' by the department that were approved for funding by the Minister were not reported to the Finance Minister. In addition, website reporting of the contracted grants has been incomplete and inaccurate.

97 The Minister's decision required that DSS ensure value for money and adequate affordability outcomes for all approved projects through appropriate negotiations with councils prior to the signing of grant agreements. However, as outlined at paragraph 4.8, while the department negotiated improved project deliverables for five projects from what was originally approved, for four projects the deliverables remained the same. The number of subsidised lots/dwellings contracted were less than those originally approved by the then Minister for five projects and one project did not progress to having a funding agreement signed due to the proponent proposing a significant reduction in the number of lots/dwellings.

Recommendation No.1

3.66 ANAO recommends that the Department of Social Services emphasise the importance of obtaining value for money outcomes in the administration of grant programs by clearly identifying in advice provided to decision-makers:

- (a) the extent to which the population of recommended projects are expected to deliver results that are consistent with the overall program objectives and related performance targets; and
- (b) the merits of not awarding some or all of the available funding where a shortfall in program performance is expected.

DSS' response:

3.67 *Agreed. The Department operates within the Financial Management and Accountability (FMA) Act 1997 and the Commonwealth Grant Guidelines to ensure that spending proposals are an efficient, effective, economical and ethical use of Commonwealth resources. The Department will revise its documented processes and, where appropriate, include advice to decision makers that covers the points raised by ANAO in this recommendation.*

3.68 *The Department utilises a Program Management System (PMS) which encapsulates all the elements involved in the end-to-end delivery of grants, from policy development to evaluation. The PMS includes the Program Model Framework, Risk Framework and Service Catalogue, comprising best practice tools and templates to direct decision making and ensure processes are conducted in line with required guidelines and legislation. The PMS is supported by a web-based IT system and business and quality assurance controls to ensure compliance and high-quality delivery, and to facilitate the day-to-day management of the Department's grant programs.*

4. Delivery of More Affordable Housing

This chapter examines the negotiation and management of grant agreements as well as the extent to which the program is expected to deliver additional lots/dwellings of affordable housing in regional cities.

Introduction

4.1 In addition to promoting public confidence in the conduct of grant activities, selecting grant applications that demonstrably satisfy soundly-based selection criteria is considerably more likely to lead to the achievement of program objectives, as well as being more efficient for agencies to administer.⁹⁸ However, as outlined in the previous chapter, the majority of the applications approved for funding had been assessed as not having high merit in terms of the published program guidelines, and were not expected (in aggregate) to deliver the targeted amount of additional affordable housing.

4.2 In this context, the ANAO examined progress to date with the BBRC program's delivery of more affordable housing in regional cities, with a particular focus on:

- the negotiation and signing of grant agreements, including the approach DSS took in response to the then Minister requiring (at the time he made his original funding decisions) that the department's negotiations ensure value for money and adequate affordability outcomes;
- the nature of the grant payment arrangements that have been adopted, including whether they are appropriate to the activity (infrastructure construction work) being funded by the Australian Government;
- progress with the delivery of the projects approved for funding, particularly given the original program guidelines had required that the infrastructure construction works being funded be delivered by 31 March 2014; and
- whether the performance measurement and reporting framework in place has given sufficient attention to the extent to which the BBRC

98 ANAO Better Practice Guide, June 2010, op. cit., p. 7.

program is expected to provide value for money through the delivery of up to 8000 additional more affordable homes.

Negotiation and signing of grant agreements

4.3 On 8 May 2012, DSS briefed the then Minister to seek his agreement to commence confidential negotiations in relation to the grant agreements prior to the public announcement of the successful applicants. The department advised the Minister that the timeframe for approval, announcement and negotiation of the agreements was 'extremely tight', with a timeline of less than eight weeks to effect actions to enable \$30 million of funding to be spent prior to 30 June 2012.

4.4 Nine grant agreements were signed between 26 and 29 June 2012. The agreements signed allowed \$30 million in BBRC program funds to be spent (\$28 million in cash and \$2 million accrued) before 30 June 2012 (see further at paragraphs 4.11 to 4.14). For another five projects, the negotiation and execution of grant agreements took between two to seven months. As a result, by 5 December 2012, 14 grant agreements had been signed (although one was later terminated).

4.5 Signing of the agreement for one project that the then Minister approved in May 2012 was delayed extensively, such that the grant agreement was not executed until 20 May 2013. Because of these delays in negotiating the agreement, the proponent requested changes to the infrastructure delivery timeframes. The department sought legal advice, and the Minister approved changes to the BBRC application guidelines for this project.⁹⁹

4.6 The two projects (Ballina and Bunbury) that were approved for funding in March 2013 had signed agreements in place within the eight week timeframe outlined in the BBRC application guidelines. Figure 4.1 illustrates two examples of the contracted projects.

⁹⁹ As a consequence, Maitland City Council will be paid its funding by 30 June 2014, when BBRC program funding ceases, for works that will not be completed until April 2015.

Figure 4.1: Examples of projects funded under the BBRC program



Source: ANAO site visits, September 2013.

Negotiations to improve value for money and affordability outcomes

4.7 When recording his funding decision, the then Minister had instructed that DSS' negotiation of the grant agreements with the successful applicants was to ensure value for money and adequate affordability outcomes. This was a challenging task for the department given:

- the efforts that had already been taken to improve the value for money and affordability outcomes offered by applicants prior to the award of funding had not led to a marked improvement in the overall value proposition offered by the successful candidates;
- there was no longer any competitive pressure on the successful applicants to improve their projects so as to offer improved value for money to the Australian Government; and
- there was little time to negotiate improved value for money and affordability outcomes before 30 June 2012, with the program budgeted to spend \$30 million by that date.

4.8 Nevertheless, DSS was able to negotiate an increased number of subsidised lots/dwellings to be contracted for delivery for five projects. However:

- for four projects' (Lismore, Wollongong—see Figure 4.2, Tweed Heads and Ballina) the deliverables remained the same;
- the number of subsidised lots/dwellings contracted were less than those originally approved by the then Minister for five projects (Wagga Wagga, Bendigo, Geraldton, Warrnambool—see Figure 4.3, and Maitland);
- for Wagga Wagga City Council, a number of concessions were made to assist the project to proceed, including increasing the original funding amount by \$250 000 to 'get the developer over the line, reducing the requirements of the developer to build 250 lots (rather than 340 as originally approved) and agreeing to allow the developer to 'roll in' 28 blocks from the existing stage 10 into the program'. However, the agreement for this project was later terminated because the Council was unable to secure a developer to deliver the project; and
- one project (Wyong) did not progress to having a grant agreement signed due to the proponent proposing a significant reduction in the number of lots/dwellings.¹⁰⁰

100 At this stage, the second Ballina project and the Bunbury project had not been approved for funding. For four of the BBRC projects, (two where the number of subsidised lots/dwellings remained the same at the time of approval and execution of the funding agreement, and two that had reduced the overall number of subsidised lots/dwellings), the affordable housing deliverables were subsequently reduced after the proponents sought variations to their projects. For one other project, the overall number of subsidised lots/dwellings increased after a variation to the project deliverables to provide additional subsidised lots/dwellings.

Figure 4.2: Wollongong City Council's West Dapto Access and Development Strategy project



Source: ANAO site visit, September 2013.

Figure 4.3: Warrnambool City Council's Dennington North Residential Growth Area project



Source: ANAO site visit, September 2013.

4.9 In addition to negotiating increased numbers of subsidised lots/dwellings for some projects, DSS sought to improve value for money by expressing a preference in grant agreement negotiations for a return rate of at least 60 per cent on the Australian Government investment. The return rate relates to the total quantity of rebates/subsidies to be provided to purchasers of the lots/dwellings as a percentage of the grant amount.

4.10 As outlined in Table 4.1, DSS was generally successful in this regard. However, for four projects, the return for the Australian government investment fell well short of the 60 per cent target.

Table 4.1: Return for Australian Government investment

Application	BBRC Program Funding	Benefit to be passed onto purchasers	Return Rate
BBRC002	\$6 340 000	\$6 150 000	97%
BBRC003	\$5 432 396	\$5 040 000	93%
BBRC005	\$8 362 019	\$8 362 019	100%
BBRC006	\$3 880 000	\$3 880 000	100%
BBRC011	\$2 516 600	\$1 500 000	60%
BBRC012	\$5 400 000	\$5 400 000	100%
BBRC014	\$3 000 000	\$2 000 000	67%
BBRC017	\$11 300 000	\$3 600 000	32%
BBRC025	\$13 924 136	\$9 225 000	66%
BBRC027 ¹	\$7 000 000	\$15 000 000	214%
BBRC030	\$11 968 334	\$6 996 000	58%
BBRC031	\$10 688 213	\$5 038 228	47%
BBRC040	\$9 000 000	\$9 000 000	100%
BBRC041	\$5 013 000	\$3 145 000	63%
BBRC042	\$4 496 000	\$2 400 000	53%
BBRC043	\$5 000000	\$3 000 000	60%

Source: ANAO analysis of DSS data. Table 2.3 identifies which of these projects had been recommended for funding by DSS, and those that were not recommended for funding but were approved.

Note 1: In September 2013, the proponent of BBRC027 advised the department that it could not provide the contracted benefit of \$15 million due to a budget shortfall. In February 2014, DSS advised ANAO that a variation to the contract for this project was 'under consideration'.

Note 2: The two originally funded projects that were terminated and withdrawn (Wagga Wagga and Wyong) would have provided a return rate of 57 per cent and between 58 and 100 per cent respectively.

Grant payment arrangements

4.11 As has been noted in earlier ANAO performance audits of programs that fund infrastructure construction projects¹⁰¹, expenditure on these types of projects typically follows a lazy S-curve. That is, expenditure starts slowly and reaches a peak by the 50 per cent to 75 per cent construction complete milestones before flattening out towards the end of the project.

4.12 The budgeted expenditure profile for the BBRC program was inconsistent with the typical cash flow needs of infrastructure construction projects. Specifically, and as illustrated by Table 4.2, the BBRC funding profile included a substantial allocation (30 per cent initially and following the transfer of program funding to assist with the cost of flood rebuilding and, currently, 26 per cent) to be spent prior to 30 June 2012. A significant proportion of program funds (43 per cent) were budgeted to be paid in 2012–13, with the remaining \$35 million (31 per cent) budgeted to be paid in 2013–14.

Table 4.2: BBRC administered expenses funding profile and payments

	2011–12 (\$m)	2012–13 (\$m)	2013–14 (\$m)
Funding provided in 2010–11 MYEFO	60.0	70.0	70.0
Funding after May 2011 Budget	30.0	35.0	35.0
Additional funding transferred from HAF	Nil	14.5	Nil
Available funding at time funding decisions taken	30.0	49.5	35.0
Grant payments made	\$30.0	\$33.4	\$9.3 (To date)

Source: ANAO analysis of Environment and DSS information.

4.13 Planning to spend a significant proportion of program funds before 30 June 2012 was consistent with contributing to the then Government's

101 See: ANAO Audit Report No.33, 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*, Canberra, 5 May 2010, paragraph 7.11; ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010, pp. 221–222; and ANAO Audit Report No.1 2013–14, *Design and Implementation of the Liveable Cities Program*, Canberra, 8 August 2013, pp. 121–122.

desired budget surplus in 2012–13.¹⁰² However, it was not consistent with sound grants administration practice¹⁰³, the nature of the projects being funded or the project delivery requirements outlined in the BBRC program guidelines.¹⁰⁴

4.14 Adhering to the BBRC program’s budget profile led DSS to make grant payments in advance of the needs of the infrastructure construction work that was being funded. This was reflected in:

- milestone payments being tied to ineligible design and other non-construction elements of six projects (see paragraph 2.23);
- an average of 29.5 per cent of each grant being contracted to be paid at the commencement of the project. In particular, 14 of the signed grant agreements involved payments upon execution of the agreement, ranging from nine to 52 per cent of the total grant value. A total of \$38.5 million (33.6 per cent of the overall funding for the BBRC program) was paid to proponents on execution of the agreements; and
- only 11 projects having milestone payments attached to the completion of the construction component of the project.

4.15 Reflecting delays with progress across a range of projects, program expenditure in 2012–13 was significantly (33 per cent) less than the \$49.5 million that had been originally budgeted. Funds were, as a result, moved into 2013–14, with a revised program budget for 2012–13 of \$34.6 million. In addition, following the change of Government in late 2013, the \$1.2 million in available grant funding that had not been allocated was removed from the program’s budget.

102 The 2010–11 MYEFO had outlined that the then Government was projecting that the Budget would return to surplus in 2012–13 (with an underlying cash balance surplus of \$1 billion). Similarly, the May 2012 Budget, delivered shortly after BBRC funding decisions had been taken and as DSS was beginning the process of negotiating funding agreements with the successful applicants, restated that the Budget was expected to return to surplus in 2012–13 (with a surplus of \$3.5 billion estimated).

103 See ANAO’s grants administration Better Practice Guide and earlier ANAO audit reports such as ANAO Audit Report No.1 2013–14, op. cit.

104 In particular, BBRC funding was not to be provided retrospectively nor could it be used for costs incurred or accrued prior to a grant agreement being signed. In addition, DSS had assessed that project management and design costs included in applications were not eligible to receive BBRC funding.

Project delivery status

4.16 DSS has actively pursued opportunities to enable projects to proceed and program funds to be paid to the successful applicants. This has included recommending that Ministers agree to variations requested by project proponents to project scopes and renegotiating milestones and associate payment schedules where projects are delayed.

4.17 Nevertheless, reflecting the quality of applications approved for funding, a feature of the BBRC program has been the relatively high incidence of approved projects not delivering, or having significant changes to their scope and/or delivery timeframes. Of note in this respect is that, of the 17 applications approved for funding in May 2012, only 13 (76 per cent) have a signed grant agreement that has not been terminated or for which the originally approved project has not been replaced. In relation to the other four projects:

- the approval of \$2.05 million in funding for one application was withdrawn in late June 2012 (before the award of funding had been announced) as the council was unwilling to provide any direct assistance for affordable housing (consistent with its application, it proposed to rely on market-based measures¹⁰⁵);
- the funding offer to another council was withdrawn in April 2013, following protracted grant agreement negotiations after the council sought a further significant reduction in the number of lots/dwellings to be delivered by the project¹⁰⁶;
- the agreement signed with another council was terminated (refer to paragraph 4.10) due to council being unable to secure a developer to

105 The application submitted by Latrobe City Council was originally approved by the then Minister for \$2.05 million in funding even though the project had been assessed by DSS to offer 'questionable value for money and poor affordability outcomes', and an affordability mechanism had not been identified by the proponent. This project did not proceed to the funding agreement stage as the proponent was unable to provide any direct assistance for affordable housing, and was relying solely on a supply/demand induced reduction in prices as a result of the provision of additional lots.

106 In September 2012, the department agreed to a reduction in the number of lots/dwellings to be delivered under the project, from 2049 to 1646, but with the same Australian Government contribution of \$4.5 million. In March 2013, the proponent requested a further reduction of lots/dwellings from 1646 to 255, with the same Australian Government contribution of \$4.5 million. The department considered that the offer no longer aligned with the original application that had been approved by the then Minister and that the proposal no longer met the requirements of the BBRC program. In addition, DSS noted that the current proposal did not rate well against the key assessment criteria 'value for money or affordability outcomes'.

deliver the project, despite the original funding amount being increased by \$250 000 to 'get the developer over the line', and the project outcome being reduced to build 250 lots (rather than 340 as originally approved); and

- the originally approved project for another council was replaced after the developer for the project that was the subject of the funding application withdrew. A grant agreement for the applied-for and originally approved project had been signed on 28 June 2012. A new agreement for the replacement project was signed on 20 June 2013.

4.18 In addition, for the projects contracted (as at November 2013) for delivery, it has been common for the proponent to request variations to the grant agreement. Specifically, one or more variations had been requested to the grant agreement for 12 of the 16 projects (75 per cent). Variations have often related to delays to the required date to complete project milestones.

Project delivery by 31 March 2014

4.19 To ensure the provision of additional more affordable housing under the BBRC program was timely, the guidelines published at the time applications were called for had outlined that:

All construction for the infrastructure component funded by the Australian Government must be completed by 31 March 2014, to enable final [BBRC] payments to be made prior to 30 June 2014. While it is not mandatory for dwellings to be constructed by 31 March 2014, the Australian Government will be giving priority to projects which see both lots and dwellings delivered within this timeframe.

4.20 Quarterly reports provided to the Minister on the program have been a key aspect of DSS' reporting on program implementation. These reports have provided information on the status of each approved project, as well as identifying: the number of projects that have a grant agreement in place; the number of projects that are 'on track'; the projects that are behind schedule; and updates on projects that are yet to sign grant agreements.¹⁰⁷

4.21 The most recent quarterly report available at the time ANAO fieldwork was completed (for May 2013, as a September 2013 report was not provided by

107 DSS also uses the information in the quarterly reports to provide input into departmental-wide situation reports on the implementation of election commitments, as well as input for Senate Estimate briefings and question time briefs on the progress of the BBRC Program.

DSS), outlined that DSS considered two projects were behind schedule due to the proponent not yet finalising their consortium arrangements, with 14 projects 'on track'. This report, compared with the two earlier quarterly reports (for December 2012 and March 2013) suggested a significant improvement in the performance of the program (as the two earlier reports had stated that only eight projects were 'on track').

4.22 The approach adopted by DSS to assessing whether a project was 'on track' is not particularly robust. Specifically, 'on-track' is defined to mean that the department expects the project to meet the 31 March 2014 deadline for completing the infrastructure component being funded by BBRC, even in situations where a project has not met the contracted milestones that precede the overall program deadline. Such an approach suggests that delays in a project meeting milestones that are a precursor to overall project completion should not be viewed as an indicator that a project will not be delivered on time. In this respect, ANAO analysis was that, by the end of October 2013:

- a total of 77 milestones should have been completed across the contracted 16 projects. Of these, 59 (77 per cent) had been reported as having been completed. Of the 59 milestones reported as complete, 23 were reported as having been completed on time or, in some instances, early. However, this means that a significant proportion (70 per cent) of milestones due to be completed by the end of October 2013 had either not been reported against, or had been reported as having been met later than contracted; and
- only four of the 16 projects had been reported as having met all contracted milestones that were due to be completed.

4.23 In this respect, and having regard to the results of ANAO's site inspections and consultations with the proponents of each of the contracted projects, there were significant risks (not highlighted in DSS reporting at the time ANAO audit fieldwork was completed) that fewer than 14 of the contracted projects will have delivered the BBRC-funded infrastructure works by 31 March 2014.

4.24 The risks have materialised such that, as at 6 March 2014, only eight of the 16 contracted projects are on track to deliver the completed infrastructure works by the original 31 March 2014 program deadline. Table 4.3 provides a breakdown of the projects that have significant delays in the delivery of the infrastructure component of the BBRC program.

Table 4.3: BBRC projects with significant delays to the practical completion of infrastructure

Project	Planned infrastructure completion date	Expected practical completion date	Delay
Lake Macquarie	31 March 2014	3 Oct 2014	7 months
Geraldton	31 March 2014	31 Dec 2014	9 months
Tamworth	31 March 2014	31 Dec 2014	9 months
Ballina — Wollongbar	31 March 2014	27 Feb 2015	11 months
Wollongong	31 March 2014	30 Apr 2015	15 months
Lismore	31 March 2014	No date specified	30 months

Source: ANAO analysis of DSS information.

Note 1: Bunbury and Maitland negotiated extended delivery dates for the practical completion of infrastructure works as part of funding agreement negotiations.

Note 2: Geraldton also has a 12 month delay for the residential works, extending the timeframe to 30 June 2017.

Performance measurement and reporting framework

4.25 The CGGs state that grants administration should focus on the delivery of government outcomes.¹⁰⁸ In this respect, the establishment of an effective performance framework is an important component of any grant program. The framework should be able to reliably establish the outcomes achieved through individual grants (or outputs) and overall program outcomes.¹⁰⁹

Program evaluation

4.26 ANAO's recent submission to the National Commission of Audit noted that a key area where there is a need for improvement in Commonwealth administration is in measuring and assessing the performance of programs.¹¹⁰

4.27 In this respect, the ANAO Better Practice Guide highlights the importance of developing a performance/evaluation framework at the outset of a program. During the period it was responsible for the administration of the BBRC program, Environment developed a draft evaluation strategy. However this document was not finalised by that department or by DSS after the transfer of the program in December 2011. In response to ANAO requests for advice made in August 2013 and again in November 2013 concerning an

108 Commonwealth Grant Guidelines, July 2009, op. cit., p. 17.

109 ANAO Better Practice Guide, June 2010, op. cit., p. 98.

110 National Commission of Audit, ANAO Submission, November 2013.

evaluation strategy for the program, in December 2013 DSS advised ANAO that it:

plans to utilise the Australian Housing and Urban Research Institute (AHURI) to evaluate the program, subject to funding being available. If the AHURI option is not viable an internal evaluation will be considered.

Performance reporting

4.28 The BBRC program was established with a relatively clear objective (see paragraph 1.2) and a clear performance target was agreed by Ministers. Specifically, by providing \$100 million in grant funding to eligible councils, the BBRC program was to help to build up to 8000 additional more affordable homes in specified regional cities.

4.29 Information on BBRC program performance indicators and results has been included in departmental budget statements and annual reports. However, the approach taken has not focused on the extent to which the program is expected to assist councils to help build up to 8000 additional more affordable homes. Specifically, the departments responsible at various points in time for the program have not at any stage identified in their performance indicators the target of up to 8000 additional more affordable homes, or how the program was performing against this target.

4.30 Rather, initially the specified performance indicators were input-focused, relating (for example) to whether the departments considered they had rigorously assessed the applications received. Once the application round had been undertaken, the focus of the performance indicators remained input-focused, but now related to the negotiation, signing and administration of grant agreements.¹¹¹

4.31 The DSS 2012–13 Portfolio Budget Statements published more outcome-focused program deliverables and performance indicators. The 2012–13 Portfolio Additional Estimates Statements also included

111 For example, the program outlook included in the DSS Annual Report for 2011–12 stated that the department expected that all grant agreements would be signed by early 2012–13 and that projects would be well advanced in the delivery of infrastructure works.

performance targets, together with a subtle change to the program deliverable.¹¹² In particular, the key indicators and targets reported were:

- signing of 16 grant agreements in 2012–13;
- infrastructure works for one project being completed in 2012–13, and for the remaining 15 projects in 2013–14;
- 2000 subsidised lots/dwellings being delivered in 2015–16; and
- 3500 lots/dwellings being brought forward according to contracts in 2015–16.

4.32 Against this background, Table 4.4 outlines the BBRC program’s key performance indicators, deliverables and performance as reported in the department’s 2012–13 Annual Report.

Table 4.4: Program Performance Reporting for 2012–13

Key Performance Indicator	Results
Number of dwellings/lots reduced in price and savings passed to home buyers or rentals reduced in price and savings passed to renters as a result of the BBRC scheme	82
Number of dwellings/lots that have been brought forward as a consequence of the BBRC program	82
Deliverables	Result
Effectively manage the BBRC funding agreements to ensure the projects proceed in line with expectations on their delivery of infrastructure for housing supply:	
• number of funding agreements signed	16
• infrastructure works completed	0
• subsidised dwellings/lots	282
• lots/dwellings brought forward according to contracts	82

Source: DSS (then FaHCSIA) Annual Report 2012–13, p. 51.

112 From 'effectively manage the BBRC program to support quality projects that help lower the cost of building new housing, improve supply and make housing more affordable' to 'effectively manage the BBRC funding agreements to ensure the projects proceed in line with expectations on their delivery of infrastructure for housing supply'.

4.33 There were no documented processes for the compilation and verification of BBRC data used for internal and external reporting processes. In this context, as illustrated in Table 4.4, one of the key program achievements reported by the department in its 2012–13 Annual Report was that 282 subsidised dwellings/lots had been delivered. However, internal BBRC program data updated and provided to the ANAO by DSS on 1 November 2013 only identified a total of 105 subsidised lots/dwellings as having been delivered under the BBRC program to date. In February 2014, DSS advised the ANAO that it was unable to identify the basis or source for the figure of 282 subsidised lots/dwellings included in its Annual Report.

4.34 The ANAO also raised other issues with DSS over the quality and accuracy of BBRC data that has been used to provide quarterly status reports to the Minister, as well as for external reporting purposes. In particular:

- information in the relevant spreadsheet for some projects does not reflect the terms of the grant agreement;
- project descriptions do not reflect the signed agreement; and
- inconsistent approaches across projects when counting the figures for lots/dwellings to be delivered.

Program performance target

4.35 The most significant shortcoming evident in the reporting of performance indicators and results for the BBRC program relates to the program target of helping to build up to 8000 additional more affordable homes. This program target, which has not been reconsidered or revised since it was approved by Ministers in May 2011, was not reflected in any of the budget statements or annual reports prepared by DSS or Environment. Implicitly, the performance targets that have been published since the 2012–13 Portfolio Additional Estimates Statements recognise that the program is expected to deliver far fewer than 8000 additional more affordable homes. Rather, DSS will consider the program to have met its published performance targets if the contracted projects, in aggregate:

- deliver 2000 additional subsidised lots/dwellings; and
- bring forward the delivery of 3500 lots/dwellings.

4.36 Prior to applications being received and assessed, the target of up to 8000 additional more affordable homes was considered to be ‘achievable’.¹¹³ However, the population of applications received did not include sufficient projects of merit (in terms of the published criteria) that would provide additional affordable housing that would enable the program to help build these homes. Rather, \$114.2 million was awarded in early May 2012 to 17 projects that were expected to provide up to 3875 subsidised lots/dwellings. At the grant agreement stage, the total number of subsidised lots/dwellings expected to be delivered had reduced to 3174, for the 16 successful projects announced by the then Minister.

4.37 ANAO analysis of variations to contracted project deliverables indicates that the number of lots/dwellings to be provided as ‘affordable homes’ as part of the BBRC program is likely to be up to approximately 2969 subsidised lots/dwellings. This figure has not been reduced to reflect projects that have current requests for variations with the department, or projects that the department has identified as being ‘at risk of not meeting BBRC objectives’ (Maitland, Bunbury, Warrnambool, Geraldton and Lismore—see Figure 4.4).¹¹⁴ In addition to the 2969 subsidised lots/dwellings, some funding agreements included additional numbers of houses/lots that councils stated would be supported in being brought forward under the program.¹¹⁵

4.38 The subsidised lots/dwellings contracted for delivery include a significantly greater cost than had been envisaged when the then Government had decided on the key program parameters. In this respect, each subsidised lot/dwelling is costing on average over \$38 100 in grant funding, a figure more than three times the ‘achievable’ figure of \$12 500 per home that underpinned government decisions when setting the program parameters.

113 See paragraph 1.6.

114 The contracted number of lots/dwellings to be brought forward within the BBRC timeframes (subsidised and not subsidised) is currently 4464.

115 As at 6 March 2014, DSS data indicated that Warrnambool was on track to deliver the infrastructure component of the BBRC program by the required timeframe of 31 March 2014. Geraldton was nine months behind schedule and had an extended completion date of December 2014. The Maitland and Bunbury projects negotiated extended delivery dates as part of funding agreement negotiations. The Lismore project was 30 months behind schedule. At the time of audit, the department had another project variation with the Minister for consideration.

Figure 4.4: Lismore City Council’s Unlocking Lismore as a Leading Regional City project



Source: ANAO site visit, September 2013.

4.39 The 16 BBRC projects have until 30 June 2016 to complete their residential works components and deliver the number of lots/dwellings and other project deliverables as outlined in their project schedules.¹¹⁶ Some benefits have, however, already been reported by six councils as having been passed on in the form of savings to purchasers (see Table 4.5).

Table 4.5: Outcomes of BBRC projects as at 6 March 2014

Project	BBRC rebates paid	Total value of savings passed on	Number of dwellings under construction
BBRC042	16	\$400 000	0
BBRC043	11	\$275 000	0
BBRC014	10	\$200 000	0
BBRC030	38	\$456 000	0
BBRC006	83	\$3 220 400	3
BBRC011	10	\$150 000	0
Total	105	\$3 209 600	3

Source: ANAO analysis of DSS data.

Note: BBRC006 has passed on 83 per cent of funding received from the Australian Government.

Conclusion

4.40 When recording his funding decision, the then Minister instructed that negotiation of the grant agreements with the successful applicants was to

¹¹⁶ The BBRC040 project (Geraldton) is currently nine months behind schedule for the practical completion of infrastructure works. The residential component has been delayed by 12 months and is now not due for completion until 30 June 2017.

ensure value for money and adequate affordability outcomes. On a positive note, DSS was able to negotiate an increased number of subsidised lots/dwellings to be contracted for delivery for five projects. Also, for 11 projects, the grant agreement requires that the quantum of rebates/subsidies to be provided to purchasers of the lots/dwellings will total at least 60 per cent of the BBRC grant amount. However, for most projects, the department was unable to negotiate an increase to the number of subsidised lots/dwellings that would be delivered.¹¹⁷

4.41 As a result, the number of additional more affordable lots/dwellings contracted for delivery under the BBRC program is significantly less than the 8000 target. Specifically, the 16 projects currently contracted for delivery under the BBRC program are required to deliver 2969 subsidised lots/dwellings in 15 regional cities across four states. In addition, some of the funding agreements included additional numbers of houses/lots that councils stated would be supported in being brought forward under the program.

4.42 Further, the subsidised lots/dwellings contracted for delivery involve a significantly greater cost than had been envisaged when the then Government decided on the key program parameters. Each subsidised lot/dwelling is costing on average over \$38 100 in grant funding, a figure more than three times the 'achievable' figure of \$12 500 per home that underpinned the program parameters. Further, the savings to be passed onto purchasers of the subsidised lots/dwellings are often quite modest in comparison to the grant funding that has been provided.

4.43 Reflecting the quality of those applications approved for funding, a feature of the BBRC program has been the relatively high incidence of approved projects not being contracted and delivered, or having significant changes to their contracted scope and/or delivery timeframes. It has also been commonplace for the signed grant agreements to be varied, including to reflect delays in project progress. ANAO's assessment was that there were significant risks (not highlighted to date in departmental reporting on the program) that a number of the contracted projects will not have delivered the BBRC-funded infrastructure works by 31 March 2014. As at 6 March 2014, only eight of the 16 contracted projects are on track to complete the infrastructure component of the BBRC program by the original program deadline of 31 March 2014.

¹¹⁷ For five projects, the signed grant agreement involved fewer lots/dwellings than had been expected when funding was approved. The total reduction was 1582.

4.44 Information on BBRC program performance indicators and results has been included in departmental budget statements and annual reports. However, the approach taken has not focused on the extent to which the program is expected to assist councils to help build up to 8000 additional more affordable homes, which is the extant target approved by Ministers. This target will not be achieved, given that:

- \$114.2 million in BBRC program funding was awarded on 4 May 2012 to 17 projects that were expected, to provide up to 3875 subsidised lots/dwellings, less than half the targeted amount;
- at the grant agreement stage, the total number of subsidised lots/dwellings expected to be delivered had reduced to 3174, for the 16 successful projects announced by the then Minister; and
- ANAO analysis of variations to contracted project deliverables indicates that the number of lots/dwellings to be provided as 'affordable homes' as part of the BBRC program is likely to be up to 2969 subsidised lots/dwellings.¹¹⁸ In addition, some funding agreements included additional numbers of houses/lots that councils stated would be supported in being brought forward under the program.

4.45 The most recently published performance indicators for the program recognise the contracted projects will not help build up to 8000 additional more affordable homes. Rather, the published targets are that the program deliver 2000 additional subsidised lots/dwellings and bring forward the delivery of 3500 lots/dwellings.

4.46 A draft evaluation strategy was developed early in the implementation of the program, but was not finalised. The extent of any evaluation activity, and the approach to be taken, has not yet been resolved, notwithstanding that funding was awarded nearly two years ago and a key program deadline was for infrastructure construction work being funded by the BBRC program to be completed by 31 March 2014.

118 This figure has not been reduced to reflect projects that have current requests for variations with the department, or projects that the department has identified as being 'at risk of not meeting BBRC objectives'.

Recommendation No.2

4.47 To adopt a greater outcomes orientation in the administration of future grant programs, the ANAO recommends that the Department of Social Services:

- (a) at an early stage of the program design, develop and endorse an evaluation strategy that is proportional to the significance of the program; and
- (b) reflect key program design parameters and targets in published key performance indicators and report against them.

DSS' response:

4.48 *Agreed. The Department established a Programme Office in 2013 to strengthen its capacity to deliver programmes, services and support. The Programme Office is a centre of expertise that helps with the establishment and implementation of programmes. The Programme Office provides programme management support and centralised activity design and selection services to improve efficiency and consistency in grant management processes.*

4.49 *The report will assist the Programme Office and the Department as a whole in monitoring our progress under BBRC, and ensure that a more rigorous and accountable approach is taken to grants administration more generally.*

4.50 *The Programme Office is reviewing the way the Department collects and uses programme performance information. A new Programme Performance Framework is being developed to ensure consistent standards of practice on governance, processes and definitions of programme performance data. The Framework will establish a clear link between programme logic, programme outcomes and performance measures, and include key performance indicators for reporting in the DSS Annual Report and Portfolio Budget Statements.*

4.51 *Information collected as part of the framework will improve the use of information for policy development, programme management and evaluation.*



Ian McPhee
Auditor-General

Canberra ACT
17 April 2014

Appendices

Appendix 1: Agencies' responses

Department of Social Services

GED
4 APR 2014
9.30



Australian Government
Department of Social Services

Finn Pratt PSM
Secretary

Ms Barbara Cass
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

*RP
A/4/12/14*

Dear Ms Cass

Thank you for your letter of 27 February 2014 seeking from the Department of Social Services comments on the proposed audit report on the Management of the Building Better Regional Cities (BBRC) program.

I was particularly pleased that the report noted the Department has learnt from the findings of the earlier audit of the Housing Affordability Fund. I also welcomed the comment that the scoring methodology and rating scale provided a clear and consistent basis for the assessment of applications.

The report findings provide a constructive basis to further strengthen the delivery and performance management of the remaining projects in the BBRC program. The Department accepts the recommendations as presented in the Section 19 report, noting that recommendations will assist us in the design of future programmes. The Department has recently established a centralised Programme Office, which sets the frameworks and business processes to ensure consistent, efficient and effective administration of grants and, over time, administered procurement activities. The Programme Office will be well placed to implement the ANAO recommendations where they relate to systemic practices.

The Department agrees with both the recommendations put forward by the ANAO. Our responses to the recommendations are at **Attachment A**.

In conclusion, I would like to take this opportunity to express my appreciation to your staff for the professional way in which they engaged with my staff in undertaking the audit.

Yours sincerely

Finn Pratt
27 March 2014

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Department of the Environment

Sensitive

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31 MAR 2014
9.30



Australian Government
Department of the Environment

Dr Gordon de Brouwer
Secretary

Ref: 2013/1046

Ms Barbara Cass
Group Executive Director *BW 23/5/2014*
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Cass

Thank you for your letter of 27 February 2014 seeking a response to the ANAO's proposed audit report on the *Management of the Building Better Regional Cities Program* as it relates to this Department.

The Department notes the audit recommendations. The Department welcomes the ANAO's conclusion that key elements of the design of the Building Better Regional Cities Program to implement the then Government's policy were effective. The Department notes that the audit has identified a few areas for improvement in delivery aspects for which the Department was responsible, and will incorporate these improvements into current and future grants programmes.

Thank you for the opportunity to respond to the proposed audit report.

Yours sincerely

Handwritten signature of Gordon de Brouwer in cursive.

Gordon de Brouwer
27 March 2014

Encl.

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Appendix 2: BBRC projects

Regional City	Project	Funding Amount (\$m)
New South Wales		
Ballina	Wollongbar Sports Fields	4.50
Ballina	Ballina Heights Drive	5.0
Lake Macquarie	Wyee Sewer Project	6.3
Lismore	Unlocking Lismore as a Leading Regional City	5.0
Maitland	Inner City Connection — Athel D'Ombra Drive	11.3
Port Macquarie	Port Macquarie—Key Infrastructure and Housing	3.0
Tamworth	New Opportunity West (NOW Project)	10.7
Tweed Heads	Homesteads at Fraser Drive for 158 Dwellings (Project One)	8.4
Wagga Wagga	Brunlea Park Affordable Land Project	Withdrawn by Proponent
Wollongong	West Dapto Access and Development Strategy	13.9
Wyong	Water and Sewer Infrastructure	Withdrawn by Department
Queensland		
Hervey Bay	Hervey Bay Housing Affordability Incentives Project	12.0
Victoria		
Bendigo	Viewpoint Huntly Residential Project	3.9
Shepparton	Shepparton Mooroopna West Growth Corridor	5.4
Warrnambool	Dennington North Residential Growth Area	2.5
Western Australia		
Geraldton	Karoo-Wandina Affordable Housing Project	9.0
Mandurah	City of Mandurah Pedestrian Bridge	5.4
Bunbury	Tuart Brook Local Infrastructure Plan Area	7.0
TOTAL		113.3

Source: ANAO analysis of DSS data.

Note: Total funding under the program was \$114.5 million, with \$1.179 million uncommitted.

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