

The Auditor-General
Audit Report No.11 2001–2002
Performance Audit

Administration of the Federation Fund Programme

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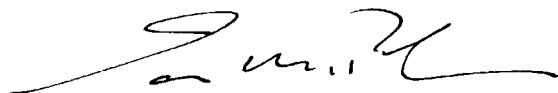
Canberra ACT
19 September 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Administration of the Federation Fund Programme*.

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

Yours sincerely



Ian McPhee
Acting Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations/Glossary

AFFA	Department of Agriculture, Fisheries and Forestry—Australia
ANAO	Australian National Audit Office
AWM	Australian War Memorial
COAG	Council of Australian Governments
DCITA	Department of Communications, Information Technology and the Arts
DEH	Department of the Environment and Heritage
DTRS	Department of Transport and Regional Services
FCHP	Federation Cultural and Heritage Projects
FCP	Federation Community Projects
Finance	Department of Finance and Administration
HORERA	House of Representatives Standing Committee on Environment, Recreation and the Arts
ISR	Department of Industry, Science and Resources
MP	Member of Parliament
NCPCI	National Code of Practice for the Construction Industry
NMA	National Museum of Australia
planned selection process	planned selection process for Federation Fund projects as illustrated at Figure 1
PM	Prime Minister
PM&C	Department of the Prime Minister and Cabinet
Taskforce	Federation Fund Taskforce

Summary and Recommendations

Summary

Introduction

1. In May 1997, the \$1 billion Federation Fund was announced as part of the 1997–98 Budget to mark the Centenary of Federation in 2001. The Federation Fund programme consists of three components:

- Federation Major Projects programme (\$906.8 million);
- Federation Cultural and Heritage Projects (FCHP) programme (\$70.4 million); and
- Federation Community Projects (FCP) programme (\$29.8 million).

2. The ANAO has previously examined the assessment, approval and announcement processes of proposals under the FCHP programme (see Audit Report No.30 1999–2000 *Examination of the Federation Cultural and Heritage Projects Programme*). An audit of the Major Projects programme was foreshadowed in that report.

Programme overview

3. The Federation Fund Major Projects programme is unique as it is a one-off programme to commemorate the Centenary of Federation in 2001 by providing financial assistance to a number of major projects of national significance; by generating jobs in the construction phase and by making a significant and ongoing contribution to Australia and the Australian economy. Projects were expected to be geographically spread around Australia and well advanced, but not necessarily complete, by 2001. Commonwealth monies were intended to fully fund projects; augment existing funding; or match funding from other sources.

4. Projects were to be selected by the Commonwealth in consultation with the States. To this end, the Prime Minister wrote to Premiers and Chief Ministers seeking nominations of major projects of national significance and suggesting a minimum of \$25 million per project as a guide. Proposals, including those nominated from other sources, would be considered and selected on their individual merits. The proposals considered were of a disparate nature, albeit all capital works, ranging from cultural projects to church restorations and from road bridges to housing for research institutions. Ministers were closely involved throughout the selection process, culminating in the recommendation of projects by a Committee of Ministers to Cabinet and/or the Prime Minister for approval. In this context, the Prime Minister advised that the process involved considerations of the national interest which Ministers are best able to determine.

5. The Department of the Prime Minister and Cabinet (PM&C) established a Federation Fund Taskforce of officials (the 'Taskforce') who assessed the majority of Federation Fund proposals which were later considered by the Committee of Ministers. The planned selection process generally involved the Taskforce preparing *Initial Assessments* for unsolicited proposals received from parties other than the Premiers and Chief Ministers. *Initial Assessments* were based on the broad selection criteria derived from the Federation Fund programme objectives and were used to shortlist proposals for the detailed assessment stage. The Taskforce then prepared *Detailed Assessments* of proposals from the Premiers and Chief Ministers and those unsolicited proposals shortlisted by the Taskforce, for the Committee of Ministers' consideration. The Taskforce was not expected to rank the proposals but to present information to Ministers in a manner that would assist Ministers in their selection process.

6. Proposals for 423 projects seeking \$8.3 billion in funding were received between May 1997 and January 1999. By the end of August 1998, the Major Projects programme was fully committed with 40 major projects approved,¹ all of which the ANAO considers met the broad selection criteria. Funding assistance for approved projects ranged from \$0.8 million to \$147 million, with a median of \$10 million.

7. The ongoing management of selected major projects was transferred from PM&C to 10 other Commonwealth departments (the 'administering departments'). The administering departments report the progress of Federation Fund projects to PM&C every six months. This information is then reported to Cabinet to enable progress to be monitored. The Department of Communications, Information Technology and the Arts (DCITA) and the Department of the Environment and Heritage (DEH) are responsible for the ongoing management of the FCHP programme.

Audit approach

8. The objective of the audit was to determine the extent to which the administration of the Federation Fund programme met identified better practice for arrangements of this kind. The main focus of the audit was an examination of the Federation Fund - Major Projects programme, covering:

- policy development and programme planning;

¹ Including the National Museum of Australia project announced in the 1997-98 Budget. Appendix 1 contains a list of all approved projects.

- the process of calling for, assessing, approving and announcing proposals; and
- ongoing programme and project management by PM&C and/or the administering departments.

9. The ANAO also examined the ongoing management of the FCHP programme as this was not included in the earlier examination. The FCP programme was not examined by the ANAO. The audit criteria were based on the better practice principles of rigour, transparency and equity which are applicable to the selection of projects under funding assistance programmes. The criteria were supplemented by further better practice identified in more recent ANAO audits of such programmes, including the examination of the FCHP component of the Federation Fund. The audit criteria for assessing the ongoing management of approved projects are drawn from the four key stages of the management cycle—planning, establishment, monitoring and evaluation.

Overall conclusion

Policy development and programme planning

10. Cabinet approved the Federation Fund programme ‘under-the-line’ (ie. without submission) in the lead up to the 1997–98 Budget. PM&C advised that it did not have any significant role in developing the policy underpinning the programme. PM&C established the Taskforce and provided substantial briefings to the Prime Minister and the Prime Minister’s Office in relation to planning the implementation of the Federation Fund programme.

Taskforce assessment

11. In providing advice to Ministers to assist them to make informed decisions in an orderly manner, it would normally be expected that the Taskforce assessment process would be rigorous, transparent and equitable. However, in practice, the Taskforce’s initial assessment and shortlisting process, applied to unsolicited proposals, lacked the rigour necessary to ensure that only the best proposals were shortlisted for consideration by the Committee of Ministers. Although broad programme criteria were publicly available in the 1997–98 Budget papers and were subsequently expanded upon in correspondence to Premiers and Chief Ministers, the specific programme selection criteria were not made available to any proponents and the Taskforce did not specify its information requirements. Consequently, proposals often lacked the degree of detail necessary for the Taskforce to complete thorough assessments against all selection criteria. This difficulty was compounded by the unexpectedly large number of unsolicited proposals which the

Taskforce had not planned for, the lack of adequate guidance for Taskforce assessors and the lack of a quality assurance process. In addition, the uneven treatment of the shortlisting process is demonstrated by the absence of any clear relationship between proposals that rated highly in the initial assessment process against the selection criteria and those shortlisted for *Detailed Assessments*. Some proposals recommended for a detailed assessment were not so assessed. On the other hand, some other proposals, not recommended for detailed assessment, actually underwent a detailed assessment. However, there was no departmental documentation available to explain such differences of treatment.

12. The detailed assessment process conducted by the Taskforce was, in general, undertaken consistently. It was also more transparent than the initial assessment process as there was better documentation to demonstrate the rationale for the ratings allocated by the Taskforce. Nevertheless, the quality of the Taskforce's *Detailed Assessments* was limited because of the:

- generally limited proposal information from all proponents, including from Premiers and Chief Ministers;
- limited documentation of the consultation with Commonwealth departments and agencies;
- lack of examination by the Taskforce of the reliability of proponents' statements, as was originally planned; and
- lack of consultations on unsolicited proposals with the States and Territories, as originally planned.

13. Overall, the assessment process undertaken by PM&C, which it considered adequate for its role, may well have been more helpful to the Committee of Ministers in making well-informed decisions if it had been more rigorous and comprehensive. That said, the ANAO notes the advice from PM&C that the Taskforce was only one source of input into the decision-making processes of the Committee of Ministers. The Committee of Ministers could have also requested additional advice from PM&C or the Taskforce if the Committee was not satisfied. However, there is no indication that this occurred.

Ministerial appraisal

14. Following the preparation of detailed assessments by the Taskforce, these assessments, as well as information from other sources, were considered by the Committee of Ministers and recommendations made to either Cabinet or the Prime Minister. The ANAO found that many proposals met the broad programme selection criteria, including all 40 approved projects, demonstrating the importance of a rigorous, transparent and equitable selection process that selected those projects

that best matched the Federation Fund programme objectives. In addition, the majority of Federation Fund proposals approved: were rated by the Taskforce as MEDIUM or higher suitability for Federation funding;² were from unsolicited sources; and did not follow the planned selection process. The Coalition held some 64 per cent of the electorates in the House of Representatives and received a little over half the number of approved projects, representing a little under 40 per cent of available funding. Labor held 32 per cent of electorates and received some 44 per cent of the number of approved projects, representing some 60 per cent of available funding. However, the success rate of projects in NSW Labor electorates is significantly lower, in a statistical sense, than the success rate for Labor electorates nationally.

15. Successive governments have supported the conventions of Cabinet confidentiality and collective responsibility by the practice of not disclosing the deliberations of, or reasons for, decisions by Cabinet and its committees.³ The lack of documentation surrounding the Ministerial appraisal process and reasons for decisions precluded the ANAO from forming an opinion as to whether the Federation Fund proposals that were selected from those considered by the Government were likely to represent best value for money in terms of the programme objectives. From the information available to it, the ANAO is not in a position to determine whether:

- the decisions made reflect a differing emphasis on particular selection criteria by the decision-makers from that of the Taskforce;
- information from non-departmental sources increased the worthiness for funding of some of the selected projects in the eyes of decision-makers; and/or
- the selection process was sufficiently rigorous and consistent to provide reasonable assurance that the projects selected best matched the programme objectives.

16. The Prime Minister, in commenting on the proposed audit report, advised that the Federation Fund selection process should not be viewed as being purely administrative in nature. He acknowledged that there was an element of administrative decision-making, but indicated that the process also involved considerations of the national interest which Ministers are best able to determine. The Prime Minister also indicated that, although it may well be appropriate to expect the administration of relatively small discretionary grant programmes to follow procedures

² On a five-point scale of LOW, LOW/MEDIUM, MEDIUM, MEDIUM/HIGH and HIGH.

³ The Committee of Ministers, although not an official Cabinet Committee, was treated as such by PM&C.

similar to those which apply to officials, he did not consider Ministers in Cabinet taking decisions which involve considerations of the national interest should be bound by such a process. In addition, the Prime Minister advised that Cabinet routinely takes decisions where the competing factors are not capable of being resolved by resort to cost-benefit analysis; and if the public is not persuaded of the correctness of those decisions, they will make their views known at the ballot box.

17. In funding assistance programmes, the ANAO notes it is usually considered important for accountability purposes that critical elements of the appraisal process and reasons for selecting particular projects for funding be appropriately documented. Nonetheless, the ANAO is mindful of the conventions of Cabinet confidentiality and collective responsibility, supported by successive governments, by the practice of not disclosing the deliberations of, or reasons for, decisions by Cabinet and its committees.

18. There is thus a tension here between the standards expected for public administration generally and the normal expectations of Cabinet conventions, which is properly a matter for government and Parliament to resolve. For the purposes of this audit, a distinction is being drawn between the policy decisions of government, and administrative appraisals or judgments made by government where projects are to be selected on merit against pre-determined objectives and criteria. The public interest is in assessing whether the processes provided confidence in the manner in which decisions were taken in order to achieve demonstrably the greatest public benefit from the expenditure of in excess of \$900 million in public funds. This would be the normal expectation of all programme stakeholders, including, in particular, those proponents who were unsuccessful. Appropriate documentation of the appraisal process and the reasons for decisions in choosing particular projects can engender greater confidence in the decision-making process and can also provide a defence against any perceptions of party-political bias.

19. Just over half of all approved projects were announced in the lead up to the 1998 Federal election. Of these, three-quarters were approved four days before the election was announced. Proponents of unsuccessful proposals were notified more than five months after the last of the selected proposals had been approved. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities. Nevertheless, from a programme administration perspective and, as a matter of good practice, it would seem preferable for all decisions on approved or unsuccessful projects, when taken, to be announced together, or within a relatively short period of time, to avoid uncertainty and unnecessary speculation.

This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative courses, if necessary. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes.

Project and programme management

20. The management of approved Federation Fund projects by administering departments has generally been sound, which is creditable given the complexity of many projects and the general lack of additional resources allocated to the task. However, there were some shortcomings in PM&C's transfer of projects to administering departments, which adversely impacted on the latter's capacity to plan, establish, monitor and evaluate the projects, with consequent implications for the programme overall.

21. No Commonwealth department has the responsibility for monitoring the collective performance of Federation Fund projects against the programme's objectives. Consequently, up to the time of the audit, very little performance information on the achievement of the programme's overall objectives had been collected or reported to the Parliament.

22. Where more than one portfolio is responsible for delivering the Government's programme objectives, the concept of whole of government performance reporting through the identification of a 'lead agency', is an area of potential improvement in Commonwealth reporting and accountability. In programmes of this nature, reporting only in individual departmental Portfolio Budget Statements and Annual Reports contributes to a 'silo effect' that would be avoided in future programmes of this nature through a more comprehensive reporting of the programme outcomes. This is a generic issue worthy of further consideration because whole of government responses, collectively owned by several ministers, are expected to increasingly become a common response.⁴

Concluding comment

23. The Prime Minister has advised that, although the Federation Fund contained an element of administrative decision-making, the process also involved considerations of the national interest which Ministers are best able to determine. The Prime Minister also made the point that, unlike officials, elected governments are accountable directly for their decisions to the electorate.

⁴ See Howard MP, Hon. John (2001), *The Centenary of the APS Oration*, The Centenary Conference of the Institute of Public Administration Australia, Canberra.

24. The Federation Fund programme is atypical in that it has elements of administrative decision-making by a Committee of Ministers following normal Cabinet conventions. This report draws attention to the tension between the standards of documentation normally expected with administrative decision-making and the conventions of the confidentiality of Cabinet deliberations. It is understandable that the Committee of Ministers approached the administration of the selection process in the way it did. However, the Federation Fund is a substantial Commonwealth programme that attracted over \$8 billion worth of applications and involved over \$900 million in public expenditure. Given that projects were to be selected on their merits, a more transparent process would have assisted in demonstrating that the greatest benefit was being obtained for the expenditure involved, as well as engendering greater confidence in the decision-making process.

25. While recognising that this issue is a matter for government and Parliament to resolve, the ANAO has set out in this report a range of administrative improvement opportunities to enhance the achievement of programme outcomes for any future financial assistance programme of a similar nature to the Federation Fund.

Agencies' responses

26. PM&C does not consider that the report takes sufficient account of the practical implications of the unexpectedly large number of unsolicited proposals. The report assesses the handling of unsolicited proposals against the guidelines for a standard grants programme. The report does not sufficiently address the practical implications of changing the programme arrangements to seek more comprehensive information from some 300 proponents around Australia. The Government's publicly stated plan for the programme was to invite Premiers and Chief Ministers to propose projects. They all did so and most Premiers' and Chief Ministers' proposals were considered to be satisfactory. In the event, their proposals accounted for some 60 per cent of Federation Fund expenditure, or over 70 per cent of funding if national projects are excluded. Against that background, to have subsequently sought more information from unsolicited proponents would have effectively changed the nature of the Federation Fund.

27. In general, the agencies administering Federation Fund projects accepted and endorsed the content of the report. The majority of agencies found the audit useful, with some (the Departments of Industry, Science and Resources; and Communications, Information Technology and the Arts) pointing to lessons learned that would be incorporated into future management of similar programs.

Key Findings

Policy development and programme planning

28. Cabinet approved the Federation Fund programme ‘under-the-line’ (ie. without submission) in the lead up to the 1997–98 Budget. PM&C advised that it did not have any significant role in developing the policy underpinning the programme, although PM&C established the Taskforce and provided substantial briefings to the Prime Minister and the Prime Minister’s Office in relation to planning the implementation of the Federation Fund programme. As PM&C considered that its role was focussed on the facilitation of proposal selection by Ministers, PM&C did not see itself having any part to play in considering many planning issues common to funding assistance programmes, including, for example:

- the conduct of a needs analysis to assist the Government to better target Federation Fund allocations to the greatest areas of need around Australia;
- risk identification, analysis, assessment, prioritisation and treatment early in the programme to limit the potential for inequitable treatment of proposals, funding substitution, ‘double dipping’ and any conflicts of interest;
- setting the context for the programme by mapping other possible sources of funding (for example, other Commonwealth programmes, State/Territory and local government programmes, and the private sector) for proposals considered under the Federation Fund;
- programme performance measures and indicators and the means to subsequently evaluate the success of the programme; and
- programme guidelines for external users as well as internal administrative procedures.

29. However, in the ANAO’s view, programme planning and analysis would have improved the rigour of the departmental assessment process and, quite likely, PM&C’s advice to the Government. It would also have better facilitated the transfer of projects to the administering departments and the monitoring and evaluation of the programme as a whole. That said, there was no indication that Ministers were not satisfied with the selection processes.

Taskforce assessment

Initial Assessments

30. Of the 364 unsolicited proposals received, 279 underwent an *Initial Assessment* of which only 13 (4.6 per cent) were shortlisted for a *Detailed Assessment*. Of those unsolicited proposals that did not undergo an initial assessment, over half were given further consideration by either undergoing detailed assessment or by referral straight to the Committee of Ministers, Cabinet or the Prime Minister. From an examination of completed *Initial Assessments*, the ANAO found that the proposals shortlisted were virtually no different in terms of ratings than numerous proposals not shortlisted. This indicates that shortlisting decisions (based on the ratings against the initial assessment criteria) were not made consistently and/or factors other than the initial assessment criteria markedly influenced those decisions. It is not possible to come to a more definitive conclusion, as the Taskforce did not document the reasons for shortlisting proposals.

31. The inconsistent and generally uncertain basis for shortlisting of unsolicited proposals was exacerbated by: the limited information contained in many unsolicited proposals (caused by the specific programme selection criteria being unavailable to proponents and the Taskforce not specifying its information requirements); the lack of guidance for Taskforce assessors; the lack of programme guidelines; and the lack of a quality assurance process. PM&C indicated that the Federation Fund selection process was designed for the Government to select proposals primarily from submissions provided by Premiers and Chief Ministers. Consequently, programme guidelines for wider use by other potential proponents, were not considered necessary. The ANAO also recognises that to seek extra information from particular proponents in an equitable manner, after proposals had been submitted, would have added to the administration of the programme and incurred additional costs.

32. It is noteworthy that four proposals recommended for a detailed assessment were not so assessed. On the other hand, six other proposals not recommended for detailed assessment actually underwent a detailed assessment. However, there is no departmental documentation available to explain such differences of treatment.

33. The Taskforce's uneven treatment, and fairly limited assessment of unsolicited proposals was apparently partly a consequence of the Taskforce being overwhelmed with the number of unsolicited proposals. Nevertheless, the Taskforce did not attempt to manage this situation to

ensure that the shortlisting process was as rigorous and transparent as it might have been, once it became apparent that a greater number of unsolicited proposals were being received than first envisaged. PM&C advised that there were regular discussions between the Taskforce and the Prime Minister's Office about the processes and administration of the programme; and these took account of the large number and nature of unsolicited proposals. However, the outcomes of these discussions were not recorded.

Detailed Assessments

34. The Taskforce prepared *Detailed Assessments* for 54 proposals from Premiers and Chief Ministers, for 13 shortlisted unsolicited proposals, and for a further 40 unsolicited proposals that bypassed the initial assessment stage. *Detailed Assessments* were summaries of the limited, quantified and non-quantified, statements of support by proponents supplemented by, in some cases, general comments from the Commonwealth departments and agencies consulted. Before the selection process was settled, it was noted that there was sufficient information available on relatively few proposals, at that time, to enable well-informed decisions to be made. The ANAO found little, if any, evidence of any later attempt by the Taskforce to provide better information to assist the Committee of Ministers. There is little evidence of any examination of the reliability of proponents' statements (which is contrary to what was originally envisaged) beyond the limited information provided by the Commonwealth departments and agencies consulted. PM&C considers that the composition of the Taskforce, comprising seconded officers from key departments, reduced the need for formal consultations with other agencies. Nevertheless, the ANAO considers that the rigour of the *Detailed Assessments* would have been improved by: broader and better-structured and documented consultations within the Commonwealth; and consultations with State/Territory Governments (as was originally planned) and the private sector (for example, with construction analysts and business experts).

35. The quality of the *Detailed Assessments* was limited and, consequently, they may well have been more helpful to the Committee of Ministers in making well-informed decisions if they had been more rigorous and comprehensive. That said, the ANAO notes the advice from PM&C that the Taskforce was only one source of input into the decision-making processes of the Committee of Ministers. The Committee of Ministers could have also requested additional advice from PM&C or the Taskforce if the Committee was not satisfied. However, there is no indication that this occurred.

36. The ANAO has no basis for questioning PM&C's view that the Taskforce fulfilled the role expected by the Committee of Ministers during the Federation Fund selection process. The ANAO's finding is that an enhancement of the Taskforce's role would have provided a better basis for decision-making, as well as greater parliamentary and public confidence in the selection processes and subsequent outcomes.

Taskforce process anomalies

37. The ANAO identified:

- forty proposals (15 of which were later approved) that bypassed the initial assessment stage and proceeded directly to the detailed assessment stage;
- six proposals (none of which was approved) that underwent a detailed assessment, although they were not recommended for a detailed assessment at the initial assessment stage; and
- four proposals that did not undergo a detailed assessment, although they were recommended for a detailed assessment at the initial assessment stage.

38. PM&C indicated that the proposals which bypassed the initial assessment stage included substantive proposals from Ministers and other Commonwealth (Coalition) Members of Parliament and proposals that *prima facie* met the Federation Fund selection criteria and merited detailed assessment. Furthermore, PM&C advised that *Detailed Assessments* were also prepared in response to, or anticipation of, specific requests by the Committee of Ministers. This resulted in some projects going directly to the detailed assessment stage or the detailed assessment of some projects which the Taskforce had not initially shortlisted (such as the six mentioned above). PM&C further indicated that *Initial Assessments* were prepared for the benefit of Taskforce senior executives who, in some cases, may have decided not to follow their recommendations for detailed assessments (such as in the case of the four mentioned above).

39. Of the 15 approved projects that bypassed the initial assessment stage, 10.7 projects valued at \$82.5 million were in Coalition electorates and 4.3 projects valued at \$97.3 million were in Labor electorates.⁵

⁵ Fractions of proposals represent the allocation of multi-electorate proposals with discrete components to their respective electorates.

Ministerial appraisal

Committee of Ministers deliberations

40. The Committee of Ministers, comprising eight senior members of Cabinet including the Prime Minister (Chair), met nine times over eight months from January to August 1998 and progressively recommended projects for selection to Cabinet. In this context, PM&C advised that Ministers brought a whole of government and appropriate political perspectives to the selection process. As PM&C was not able to provide details of the selection process used by the Committee of Ministers, the Auditor-General wrote to the Prime Minister seeking relevant details.

41. The Prime Minister indicated that Ministers would have taken many factors into account in determining which projects met the selection criteria and were most likely to achieve the objectives of the Fund. Among those factors would have been the priorities of Premiers and Chief Ministers, the need to ensure a reasonable geographic spread of projects, the infrastructure needs of particular regions and the fact that it was not possible to fund all projects. The selection of Federation Fund projects involved a balancing of different views about the merits of individual proposals and a weighing of the importance of each of these factors. The Prime Minister indicated that these are tasks that the Cabinet, collectively, is ideally suited to undertake.

42. The Prime Minister indicated that he would expect that in most, if not all cases, Ministers would have consulted, either directly or through their staff, a wide range of individuals, including from among their parliamentary colleagues, government, industry and community contacts in the States and Territories, and senior officials in their departments and agencies. Excepting the last group, the Prime Minister indicated that he would neither ask, nor expect, Ministers to document consultations of that nature.⁶

43. The Prime Minister also advised that Ministers also took account of the advice of the Taskforce. While Ministers were provided with *Detailed Assessments*, there was no evidence to suggest that Ministers saw the original proposals. Nevertheless, individual Ministers would have been familiar with those proposals they brought forward, personally endorsed/supported, or that were otherwise brought to their attention.

⁶ With the exception of one Minister's consultations on Federation Fund proposals in NSW, the advice received, its particular sources, and impact on the selection outcome, has not been documented.

Consultations with the States and Territories

44. Consultations with the States and Territories during the selection process on proposals did not occur as originally envisaged. The Prime Minister indicated that the significantly greater number of unsolicited proposals received than originally anticipated, together with the time constraints imposed by the need for decisions to be made in good time for projects to be well advanced during the Centenary Year, meant that it was impractical for the States and Territories to be consulted to the extent originally envisaged. Nevertheless, the Prime Minister considered that the States and Territories were consulted in appropriate cases. However, it was not possible to gauge the extent of this consultation due to the general absence of programme documentation.

Transparency of the selection process

45. In funding assistance programmes, it is usually considered important for accountability purposes that critical elements of the appraisal process and reasons for selecting particular projects for funding be appropriately documented. The Prime Minister advised that the Federation Fund selection process should not be viewed as being purely administrative in nature. He acknowledged that there was an element of administrative decision-making, but indicated that the process also involved considerations of the national interest which Ministers are best able to determine. The Prime Minister also indicated that, although it may well be appropriate to expect the administration of relatively small discretionary grant programmes to follow procedures similar to those which apply to officials, he did not consider Ministers in Cabinet taking decisions which involve considerations of the national interest should be bound by such a process.

46. As previously indicated, there is a tension here between the standards expected for public administration generally and the normal expectations of Cabinet conventions. While this is properly a matter for government and Parliament to resolve, there would be considerable merit in the government having a record, as part of its due process, of the ministerial appraisal process and the reasons for selecting, or not selecting, particular projects, particularly given that, in this instance, the value of proposals far exceeds the funds available and projects were to be selected on merit. This would promote greater parliamentary and public confidence in the selection process and could also provide a defence against any perceptions of party-political bias that may arise.

47. The other benefit of having a record would be to allow Ministers to more readily weigh the merits of proposals against decisions taken previously, particularly given the 13-month duration of the selection process. Ministers' staff would be able to assist Ministers to document their appraisals and the reasons for their decisions.

48. For the purposes of this audit, a distinction is being drawn between the policy decisions of government, and administrative appraisals or judgments made by government where projects are to be selected on merit against pre-determined objectives and criteria. The public interest is in assessing whether the processes provided confidence in the manner in which decisions were taken in order to achieve demonstrably the greatest public benefit from the expenditure of in excess of \$900 million in public funds. This would be the normal expectation of all programme stakeholders, including, in particular, those proponents who were unsuccessful. Although Ministers' deliberations in relation to major project appraisals are not expected to be made public, there would be a reasonable expectation that reasons for selecting approved projects involving the expenditure of public funds would be available publicly, at least on request, and unsuccessful proponents would be provided with reasons for their proposals not being selected where sought by the proponents concerned. PM&C considers it would not be consistent with the conventions of Cabinet confidentiality and collective responsibility for deliberations to be recorded in the manner suggested so that reasons could be made public. Nevertheless, the ANAO notes that reasons for decisions were made publicly available under the FCHP component of the Federation Fund, although in that case, the decisions were not made by Cabinet but by a committee of two Ministers.

Ministerial process and selection anomalies

49. The ANAO found that many proposals met the broad programme selection criteria, including all 40 approved projects, demonstrating the importance of a rigorous, transparent and equitable selection process that selected those projects that best matched the Federation Fund programme objectives. However, a number of approved projects did not follow the planned selection process including:

- four projects that were not assessed by the Taskforce;
- three projects approved by the Prime Minister that had been considered by the Committee of Ministers, but no decisions had been made whether or not to recommend them for approval; and
- one project (not recommended for shortlisting by the Taskforce) that went directly to, and was approved by, the Prime Minister.

50. Reasons for the selection of two of these eight approved projects are already on the public record in answers to questions at hearings of the Senate Finance and Public Administration Legislation Committee. The Prime Minister provided reasons for the selection of the remaining six projects to the ANAO. Of these eight approved projects, two projects valued at \$22 million were in Coalition electorates, five projects valued at \$27.9 million were in Labor electorates, and one project valued at \$1 million was a multi-electorate project.

Results of the selection process

Overview

51. Parliament and the general public frequently raise questions about the party-political distribution of approved projects. Consequently, the ANAO analysed the distribution of approved projects by State, by Taskforce rating, by political party, and by proponent. The ANAO found that the majority of Federation Fund proposals approved: were rated by the Taskforce as MEDIUM or higher suitability for Federation funding; were from unsolicited sources; and did not follow the planned selection process (particularly the initial assessment stage). The Coalition held some 64 per cent of the electorates in the House of Representatives and received a little over half the number of approved projects, representing a little under 40 per cent of available funding. Labor held 32 per cent of electorates and received some 44 per cent of the number of approved projects, representing some 60 per cent of available funding.

52. NSW had the greatest number of projects of any State (15.5 projects) of which 12 were from unsolicited sources and 12 did not follow the planned selection process. Thirteen of the approved projects in NSW cost less than \$25 million (the minimum suggested to the Premiers of the four largest States to guide the preparation of their proposals) of which 11 were in Coalition electorates. The success rate of NSW projects in Labor electorates (16.7 per cent) is significantly lower, in a statistical sense, than the success rate for Labor electorates nationally (42.5 per cent).

53. None of the ACT Chief Minister's proposals was approved (all were rated LOW by the Taskforce). The Prime Minister indicated that ACT proposals were not accepted, in the main, because of the disproportionate expenditure allocated to projects in the ACT which were of a 'national' nature. Four of the five ACT approved proposals did not follow the planned selection process.

Funding allocations to the States

54. The smaller States and Territories received a significantly greater proportion of Federation funding than would be otherwise be determined on the basis of their proportions of Australia's population. This is not uncommon in many national financial assistance programmes (for example, the FCHP programme where the Ministers considered that, had decisions been taken solely on the basis of population, the smaller States would have done extremely poorly). Given the nature of major project funding, it is to be expected that there would be some variation between the notional allocations and actual allocations based on population proportions.

Taskforce ratings

55. Nationally, 65 per cent of proposals approved had a Taskforce rating of MEDIUM or higher. Five of the six approved proposals that were rated by the Taskforce below MEDIUM were in NSW and Vic. These lower rated proposals were selected in preference to numerous higher rated proposals, some of similar funding magnitude, from those States. Although Ministers may quite legitimately come to a different view from that of a Taskforce of officials as to the merits of particular proposals, documenting the reasons for selection ahead of other proposals would enhance transparency. The approval rate of those lower rated proposals that did not follow the planned selection process (41.7 per cent) was significantly higher, in a statistical sense, than the approval rate of all lower rated proposals. This highlights that, from the perspective of sound public administration, all proposals should follow the same selection process unless there are good reasons for doing otherwise. Again, documentation of those reasons would enhance transparency of the process and avoid any perception that the selection process was varied for party-political purposes, particularly where judgment plays a significant role.

Distribution by political party

56. Nationally, the distribution by political party of proposals approved reflects the distribution of proposals considered by the Committee of Ministers, Cabinet and/or the Prime Minister. However, a State-by-State analysis of project distribution by political party indicates that the success rate of NSW projects in Labor electorates (16.7 per cent) is significantly lower, in a statistical sense, than the success rate for Labor electorates nationally (42.5 per cent). This result occurred in circumstances where Labor held a greater proportion of electorates in NSW than it did nationally.

Proposals from Premiers and Chief Ministers

57. Although the Federation Fund programme was targeted primarily at proposals nominated by Premiers and Chief Ministers, Premiers' and Chief Ministers' proposals represented a little under half of all approved proposals and some 60 per cent of approved funding for the major projects. Virtually all approved proposals in Qld, WA, SA/NT and Tas, and most of Vic's approved proposals were put forward by their Premiers and Chief Ministers. However, only about one-quarter of NSW's approved proposals were put forward by the NSW Premier despite the Taskforce rating many as HIGH or MEDIUM. As noted above, none of the ACT Chief Minister's proposals was approved.

58. The Prime Minister noted that PM&C had previously advised the ANAO that the apparent discrepancy in the case of NSW '*reflected the arrangements for developing the list prepared by the NSW Premier and the inappropriateness of a number of proposals submitted*'. However, the Commonwealth did not formally request the NSW Premier to reconsider his submission in light of officials' concerns. Furthermore, the overall range and distribution of Taskforce ratings were similar to those attributed to proposals from the Victorian Premier.

Funding smaller projects

59. The Federation Fund was described as '*a big projects fund*'. However, the majority of approved projects from NSW and Vic (83.9 per cent and 75.5 per cent, respectively) was less than the minimum limit of \$25 million suggested to the Premiers of the four largest States to guide the preparation of their submissions. Of those NSW and Victorian proposals costing less than \$25 million ('low cost proposals') that were approved, 84 per cent and 46.7 per cent, respectively, were in Coalition electorates in those two States.

60. The NSW and Victorian Premiers (or their officials) were not formally advised of any variation to the suggested minimum funding level for Federation Fund projects. Correspondence from the NSW Premier to the Prime Minister during the 1998 election caretaker period suggests that the NSW Premier's list of preferred Federation Fund proposals would have been different had he been aware earlier that the \$25 million minimum level no longer applied. It is likely that, in the case of NSW at least, the selection process would have been improved had the relevant State Premiers been advised that smaller projects than originally envisaged were being funded and States requested to reconsider their submissions in that light. The Prime Minister agreed with PM&C's explanation that the \$25 million preliminary guide was intended to limit the number of small projects that might be put forward, but that it was not intended to be a hard and fast rule.

61. In relation to the four largest States, the approval rate for all proposals (regardless of cost) that did not follow the planned selection process was 54.2 per cent. However, the approval rate of low cost proposals that did not follow the planned selection process was 64.5 per cent and in the case of such proposals in NSW, the approval rate was 76.9 per cent. Of the 10 low cost proposals approved from NSW that did not follow the planned selection process, nine were approved by the Prime Minister on 27 August 1998, including eight in Coalition electorates.

Partial funding

62. Over a quarter of all approved projects received less than the amount sought by their proponents. Although partial funding allows more projects to be funded and increases the geographic spread of projects, there is an increased risk that the viability of projects could be compromised, particularly in cases where there is no discussion with the proponents who should be able to identify any such consequences. In relation to eight out of 11 partially-funded proposals, the Taskforce did not provide advice to the Government on the potential for, or feasibility of, their partial funding and the Government did not indicate what components of the proposals in particular the Commonwealth would fund. The ANAO considers that an explanation of the reasons for approving lesser financial assistance than that sought would have aided the decision-making of those responsible for the ongoing administration and delivery of Federation Fund projects.

Projects no longer proceeding

63. Two projects, and a component of another project, are no longer proceeding. The Belgenny Farm Wool Centre project ceased due to the lack of financial support from outside the Commonwealth originally envisaged. The Brisbane Light Rail project ceased at the request of the project's proponent, the Qld Government. Defence has recently decided to retain ownership and possession of the Fort Queenscliffe site that was part of the Federation Parks Initiative (Vic and SA Defence Lands) project. Only in the case of the Belgenny Farm Wool Centre project might a more rigorous assessment of this project have alerted decision-makers to pertinent project risks—in this case, the risk associated with unconfirmed financial support from non-Commonwealth sources. No Federation funding was ever paid to these projects.

Announcement of selection results

64. In August and mid-November 1997, the Government indicated that it was the Prime Minister's intention to announce approved projects by the end of 1997. Project selection at this time would have given selected proponents more than three years to complete their projects before the end of the Centenary of Federation Year. However, the overwhelming majority of projects were selected from January to August 1998, with most of these being announced in September 1998.

65. Elapsed time varied widely between project approvals and their announcements (ranging from the same day to two years nine months, with a mean of some 50 days and a median of 24 days). Just over 70 per cent of projects were announced less than one month after approval. About half of the approved projects were approved four days before the start of the caretaker period in the lead up to the Federal election on 3 October 1998. As Cabinet, or the Prime Minister, approved all projects before the announcement of 1998 Federal election, the announcement of just over 50 per cent of approved projects in the caretaker period did not breach the caretaker convention.

66. A greater proportion of approved projects in Labor electorates was announced before the 1998 election caretaker period and after the election than for Coalition electorates. Of the 21.3 projects announced during the caretaker period, 14 (65 per cent) were in Coalition electorates including 10.7 projects that were approved four days before the start of the caretaker period.

67. During the Federation Fund assessment process from May 1997 to August 1998, five States and Territories (NT, SA, ACT, Tas and Qld) held State/Territory elections in their own jurisdictions. An analysis of approvals and announcements relative to state government elections showed some NT and Qld projects were approved and announced after state/territory elections were called, but before elections were held, in those States/Territories.

68. Proponents of unsuccessful proposals were not notified that their proposals were unsuccessful until early-February 1999—more than five months after the last of the selected proposals had been approved. Although the timing of written advice to unsuccessful proponents was determined by the Government, PM&C assumes the delay was a result of a combination of factors including the October 1998 election, higher priorities during the settling in period for the Government following the election, and the Christmas/New Year break. Although it is understandable that factors such as these would influence the timing of written advice, it would have been better if all unsuccessful proponents had been notified once all Federation Funds had been committed.

69. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities. Nevertheless, from a programme administration perspective and, as a matter of good practice, approved and unsuccessful proponents should be advised without undue delay after a decision on their proposal has been made. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative courses, if necessary. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes. It would seem preferable for all decisions, when taken, to be announced together, or within a relatively short period of time, to avoid uncertainty and unnecessary speculation.

Project and programme management

70. The management of approved Federation Fund projects by administering departments has generally been sound, which is creditable given the complexity of many projects and the general lack of additional resources allocated to the task. However, there were some shortcomings in the transfer of projects to administering departments by PM&C, which adversely impacted on the departments' capacity to plan, establish, monitor and evaluate the projects, with consequent implications for the effectiveness of the programme overall.

71. In some cases, payments were made to recipients without commensurate progress against milestones. In these cases, departments did not appear to assess progress reports adequately against agreement requirements before making payments.

72. One of the key Federation Fund programme objectives was that projects should be '*well advanced, but not necessarily complete by 2001*'. The funding schedule set by Ministers in April 1999 estimated that funding for 26 of the 40 major projects valued at \$366 million would be fully disbursed by June 2001. However, the latest Federation Fund progress information (as at June 2001) indicated that only 14 major Federation Fund projects valued at \$211 million were completed by June 2001. Nevertheless, it further indicates that another 11 major Federation Fund projects valued at \$143 million are scheduled for completion in the second half of the Centenary of Federation year. Administering departments now expect all projects to be completed by the end of 2003.

73. Whilst recognising the provisional nature of the expenditure schedule approved by Ministers in April 1999, it indicated that 75.1 per cent of Federation Funding was to be disbursed by June 2001.

However, only 54 per cent was disbursed by that time. Actual disbursements have continually lagged behind original and revised estimates. Projects' estimated completion dates have also slipped by an average (mean) of four months. Although some delays are beyond the control and influence of the Commonwealth, the ANAO found that some administering departments have contributed to delays in some projects through too passive monitoring and/or lack of timely follow-up action. Close monitoring of all unfinished projects and timely responses to issues arising, where necessary, is required to contain any further delays.

74. No Commonwealth department has the responsibility for monitoring the collective performance of Federation Fund projects against the programme's objectives. Consequently, up to the time of the audit, very little performance information on the achievement of the programme's overall objectives had been collected or reported to the Parliament.

75. Where more than one portfolio is responsible for delivering the Government's programme objectives, the concept of whole of government performance reporting through the identification of a 'lead agency', is an area of potential improvement in Commonwealth reporting and accountability. In programmes of this nature, reporting only in individual departmental Portfolio Budget Statements and Annual Reports contributes to a 'silo effect' that would be avoided in future programmes of this nature through a more comprehensive reporting of the programme outcomes.

Improvement opportunities

76. Given that the Federation Fund programme is unique and programme funds have been fully committed, this report does not make any recommendations. However, there are a number of administrative steps that could be taken to enhance the achievement of programme outcomes for any future funding assistance programmes of a similar nature to the Federation Fund. For example, the quality of departmental officials' advice to ministers would be improved through:

- consideration of planning issues for all stages of the programme;
- the development of programme guidelines for external users that assists them to better prepare their applications or proposals;
- the provision of structured guidance to assist proposal assessors to assess proposals more consistently;
- the implementation of a quality assurance process for the departmental assessment process;

- well-structured and documented consultations within the Commonwealth, States/Territories and/or the private sector, as appropriate, during the departmental assessment process; and
- consideration of where whole-of-programme reporting responsibilities lie should ongoing project management be devolved to others.

77. The selection of projects by ministers in funding assistance programmes is a sensitive issue that often raises questions as to whether the selection process was sufficiently transparent and whether party-political interests in any way unduly influenced the decisions made. As a consequence, attention can be drawn away from assessing the programme's intended outcomes to speculation as to why some proponents were favoured over others. The effort that ministers and officials subsequently exert to explain the selection decisions made represents an opportunity cost that could be minimised with an appropriately documented selection process.

78. A transparent and systematic appraisal process assists in informing decisions and enhances confidence in the selection process and programme outcomes for both programme stakeholders and the public. This can assist the government in promoting the benefits of its programme and, at the same time, demonstrating its commitment to public accountability and providing the necessary assurance to the various stakeholders involved that public funds have both spent for the approved purposes and are achieving the best possible outcomes. This report raises a number of matters for consideration by the government and Parliament in cases where the government is appraising proposals to expend public monies based on merit against pre-determined objectives and criteria.

Audit Findings and Conclusions

1. The Federation Fund Programme

This chapter provides an overview of the Federation Fund; outlines the objectives of the audit; and describes, compares and contrasts the administrative practices normally associated with funding assistance programmes and the conventions and practices of decision-making by Cabinet and its committees.

Programme background

1.1 In May 1997, the \$1 billion Federation Fund was announced as part of the 1997–98 Budget to provide financial assistance to a number of major projects of national significance to commemorate the Centenary of Federation in 2001. The Budget papers indicated the projects ‘are to be well advanced, but not necessarily complete, by the Centenary of Federation in 2001’ and would ‘be selected on the basis that they will generate jobs in the construction phase and make a significant and ongoing contribution to Australia and the Australian economy’. There would be a reasonable geographic spread of projects around Australia and the Commonwealth Government, in consultation with State Governments, would select projects.

1.2 Part of the context of the Federation Fund was the long and widely held view that there was a need to celebrate the Centenary of Federation. In 1994, the Centenary of Federation Advisory Committee (appointed by the Council of Australian Governments) reported that, as part of the celebrations, the Commonwealth should consider funding national infrastructure projects.

1.3 The Federation Fund programme consists of three components:

- Federation Major Projects programme (\$906.8 million);
- Federation Cultural and Heritage Projects (FCHP) programme (\$70.4 million); and
- Federation Community Projects (FCP) programme (\$29.8 million).

1.4 The latter two components were established by Government decisions in late-January and early-March 1998. The ANAO has previously examined the assessment, approval and announcement processes of proposals under the FCHP Programme (see Audit Report No.30 1999–2000 *Examination of the Federation Cultural and Heritage Projects Programme*). An audit of the Major Projects programme was foreshadowed in that report.

1.5 The Federation Fund Major Projects programme is unique as it is a one-off programme to mark the Centenary of Federation. Commonwealth monies were intended to fully fund projects, augment existing funding or match funding from other sources. Projects were to be selected by the Commonwealth in consultation with the States. To this end the Prime Minister wrote to Premiers and Chief Ministers seeking nominations of major projects of national significance and suggesting a minimum of \$25 million per project as a guide. Projects, including those nominated from other sources, would be considered and selected on their individual merits. The proposals considered were of a disparate nature, albeit all capital works, ranging from cultural projects to church restorations and from road bridges to housing for research institutions. Ministers were closely involved throughout the selection process, culminating in the recommendation of projects by a Committee of Ministers to Cabinet and/or the Prime Minister for approval. In this context, the Prime Minister advised that the process involved considerations of the national interest which Ministers are best able to determine.

1.6 The Department of the Prime Minister and Cabinet (PM&C) established a Federation Fund Taskforce of officials (the 'Taskforce') who assessed the majority of Federation Fund proposals which were later considered by the Committee of Ministers. The selection process generally involved the Taskforce preparing *Initial Assessments* for unsolicited proposals received from parties other than the Premiers and Chief Ministers. *Initial Assessments* were based on the broad selection criteria derived from the Federation Fund programme objectives (see Table 1) and were used to shortlist proposals for the detailed assessment stage. The Taskforce then prepared *Detailed Assessments* of proposals from the Premiers and Chief Ministers and of those unsolicited proposals shortlisted by the Taskforce, for the Committee of Ministers' consideration. The Taskforce was not expected to rank the proposals but to present information to Ministers in a manner that would assist Ministers in their selection process.

1.7 Proposals for 423 projects seeking \$8.3 billion in funding were received between May 1997 and January 1999. By the end of August 1998, the Major Projects programme was fully committed with 40 major projects approved,⁷ all of which the ANAO considers met the broad selection criteria. Funding assistance for approved projects ranged from \$0.8 million to \$147 million with a median of \$10 million. A complete list of approved projects is in Appendix 1.

⁷ Including the National Museum of Australia project announced in the 1997-98 Budget.

1.8 The ongoing management of selected major projects was transferred from PM&C to 10 other Commonwealth departments (the ‘administering departments’). The administering departments report the progress of Federation Fund projects to PM&C every six months. This information is then reported to Cabinet to enable progress to be monitored. The Department of Communications, Information Technology and the Arts (DCITA) and the Department of the Environment and Heritage (DEH) have responsibility for the ongoing management of the FCHP programme.

Audit approach

1.9 The objective of the audit was to determine the extent to which the administration of the Federation Fund programme met identified better practice for arrangements of this kind. The main focus of the audit was an examination of the Federation Fund - Major Projects programme covering:

- policy development and programme planning;
- the process of calling for, assessing, approving and announcing proposals; and
- ongoing programme and project management by PM&C and/or the administering departments.

1.10 The ANAO also examined the ongoing management of the FCHP programme as this was not included in the earlier examination. The FCP programme was not examined by the ANAO. The audit criteria were based on the better practice principles of rigour, transparency and equity which are applicable to the selection of projects under funding assistance programmes. The criteria were supplemented by further better practice identified in more recent ANAO audits of such programmes, including the examination of the FCHP component of the Federation Fund. The audit criteria for assessing the ongoing management of approved projects are drawn from the four key stages of the management cycle—planning, establishment, monitoring and evaluation.

1.11 Given the extensive involvement of a Committee of Ministers in the selection process and the fact that PM&C was unable to advise the ANAO, other than in a general way, what factors Ministers took into account in the selection process, the Auditor-General wrote to the Prime Minister, as chair of the Committee of Ministers, seeking the Prime Minister’s assistance in providing details of the selection process. The Prime Minister’s cooperation in providing comments on the issues raised with him, and on the draft audit report, was appreciated.

1.12 The performance audit was conducted in accordance with the ANAO Auditing Standards and cost approximately \$450 000. The majority of the fieldwork was undertaken between August 2000 and March 2001 and updated in July 2001.

Administration of financial assistance programmes

Introduction

1.13 In examining the Federation Fund programme, the ANAO was particularly interested in seeing whether the selection process was designed so that the projects approved clearly represented the best value for money within the terms of the programme. The ANAO was also interested in whether the processes provided confidence in the manner in which decisions were taken on major projects involving in excess of \$900 million in public funds. The close involvement of senior Ministers and Cabinet throughout the assessment and approval process and the collective nature of the decision-making also requires a brief explanation of the conventions and practices of decision-making by Cabinet.

Programme effectiveness, equity and transparency

1.14 The overarching objective of funding assistance programmes is for the funding to add value by achieving a worthwhile purpose that would generally not be achieved without financial assistance. Given the announced purpose of the programme and the broad criteria established for project selection, it would be expected that the Commonwealth would put in place arrangements to provide an assurance that projects selected were those that best matched the stated purpose of the Fund, given that the value of proposals far exceeded the funds available. To this end, PM&C put in place arrangements that sought to provide an assessment of proposals to be considered by the Committee of Ministers.

1.15 Such arrangements should provide decision-makers with adequate information on which to make informed decisions. For such information to be adequate, it should compare individual projects against the selection criteria; should be comparable over all projects; and be consistent over the period of the selection process. This latter point is especially important when decisions are being made over a relatively long timeframe, as was the case with the Major Projects programme.

1.16 In such programmes, it is also important that all proposals are treated equitably. Equity is a prevailing principle of the administration of all Commonwealth programmes. This principle essentially places a responsibility on those involved in the allocation of public funds to conduct selection processes in a fair and even handed manner, and to

allow all proponents to be properly informed of the basis upon which their proposals will be assessed. It means all proposals should go through a consistent process that assesses proposals on their merits against all, and only, relevant selection criteria, which should be available to applicants.

1.17 A selection process also requires adequate documentation that is appropriate to the circumstances for accountability purposes. Documentation at all stages of the selection process not only enables greater consistency of decision-making over time but also it facilitates transparency—providing the basis for the accountability of decision-makers for their decisions. Furthermore, by providing transparency in respect of the process followed, adequate documentation enables decision-makers to demonstrate the rigour and equity of the process followed should it ever be called into question. Such transparency extends to making available to the public, at least on request, the reasons for selecting approved projects and providing unsuccessful proponents with reasons for their proposals not being selected where sought by the proponents concerned.

1.18 Accountability requirements will vary with the size and nature of the programme but all programmes of financial assistance involve the expenditure of public money. Decision-makers and funding recipients, therefore, are accountable for the value for money achieved from the allocation of funding to individual projects in accordance with the selection criteria determined by the Government. In the case of the Federation Fund, the decision-makers were Ministers who are directly accountable to Parliament and to the electorate.

Role of Ministers and ministerial accountability

1.19 It would be generally understood that governments (ministers) have to take decisions in the interest of the community and then be ultimately accountable for them in the electorate. One complexity with respect to the Federation Fund is that appraisals and decisions were undertaken by Ministers, which has already raised publicly the question, or at least the perception, as to whether decisions, as well as the timing of the decisions and announcements, were unduly influenced by party-political interests.⁸ The involvement of a Committee of Ministers in this programme, in recommending projects to Cabinet and/or the Prime

⁸ In this regard, the ANAO notes the controversy that arose from an entry in the former Deputy Prime Minister's diary that mentions '*the pork-barrelling of the Federation Fund*'. (Source: Rees, P. (2001), *The Boy from Boree Creek: The Tim Fischer Story*, Allen & Unwin, p. 301).

Minister for approval, does not diminish the need for the process to be rigorous, equitable and transparent. Ministers may quite legitimately come to a different view from that of officials, but the Committee of Ministers' appraisal process and reasons for recommendations made against the criteria determined by the Government should be reasonably transparent to provide confidence that the best projects that met the programme objectives were put forward and subsequently approved by Cabinet. Such transparency would also provide a defence against any perceptions of party-political bias in the approval of Federation Fund proposals.

1.20 Australian governments have been well regarded internationally for their commitment to openness and accountability, as evidenced for example by the public documentation of many of the operational conventions of responsible government. This includes the *Federal Executive Council Handbook*, the *Cabinet Handbook*, the *Legislation Handbook*, and most recently the Prime Minister's *A Guide on Key Elements of Ministerial Responsibility*. These articulations of core conventions of responsible government highlight the importance of accountability in ministerial decision-making.

A Guide on Key Elements of Ministerial Responsibility

1.21 The *Guide on Key Elements of Ministerial Responsibility* sets out in summary form the main principles conventions and rules by which government at the Commonwealth level is conducted. It underscores the importance of defensible conduct and proper behaviour so as not to undermine public confidence in ministers or the government. The Guide indicates that ministers may have to account for the exercise of their administrative powers, not only to Parliament (or its committees) and the Auditor-General, but also at law. The courts may review the legality of administrative decisions or actions taken by ministers. In relation to statutory decision making, the *Administrative Decisions (Judicial Review) Act 1997* gives a clear indication of the basic requirements for decision-making and the grounds for challenging administrative decisions made under legislation.

1.22 The Guide states that the decision-making process needs to be carefully documented to allow for statements of reasons to be prepared or for the defence of a decision on review. Non-statutory decisions may also be subject to legal challenge. The Guide indicates that care should be taken to ensure the decision-making process and the decisions made are sound in law. However, there is no requirement in the Guide for ministers to explain or document their reasoning behind non-statutory decisions, such as the selection of Federation Fund projects.

Cabinet Handbook

1.23 The Cabinet is a product of convention and practice and it is up to the government of the day to determine how it is to operate. The *Cabinet Handbook* illustrates the high standards of accountable decision-making to which successive governments have committed themselves and has the stated aim of enabling informed decision-making on all issues requiring collective determination. Consultation arrangements are spelt out so that relevant ministers and officials have an opportunity to contribute to the development of proposals.

1.24 The Prime Minister usually establishes a number of standing committees of the Cabinet (for example, expenditure review, national security, parliamentary business). Additional committees, including *ad hoc* committees, may be set up from time to time for particular purposes, usually for a defined duration. Such committees are commonly used for dealing with especially sensitive issues (for example, security and revenue); for testing potentially controversial developments where discussion in full Cabinet would be premature; for dealing with matters where there is a lot of detail to be addressed (as in this programme, for example) and where matters are relatively routine.

1.25 Subject to some exceptions, minutes of committees are not official until endorsed by Cabinet. Ministers are expected to refrain from public comment in advance of issues being endorsed by Cabinet. The *Cabinet Handbook* indicates that ministers should ensure that policy initiatives or expenditure commitments which require Cabinet authority are not announced in advance of the Cabinet's consideration. In exceptional cases, where prior Cabinet clearance is not possible, proposed announcements, must be cleared with the Prime Minister, and if expenditure is involved, with the Minister for Finance and Administration.

1.26 Departmental officers and ministerial staff have a responsibility to act in support of ministers' obligations to abide by Cabinet conventions, and a responsibility to advise ministers in any case where they may perceive a breach or likely breach, of these conventions.

Cabinet confidentiality

1.27 The Prime Minister's Guide and the *Cabinet Handbook* lay down the principles and conventions by which ministerial accountability and the Cabinet system operate. Ministers and officials are urged to ensure adherence to both the spirit and letter of such documents. Under these conventions and principles, collective responsibility is supported by the strict confidentiality attaching to Cabinet documents and to discussions in the Cabinet room. Ministry, Cabinet, and Cabinet committees are seen as forums in which ministers, while working towards a collective position, are able to discuss proposals and a variety of options and views with complete freedom.

1.28 Cabinet officials take notes of the discussions that take place in Cabinet and its committees and produce minutes recording the outcome of those discussions. Although notes are taken during discussion for the purpose of writing up minutes, notetakers do not keep a verbatim record of discussions.

1.29 Cabinet documents are also exempt from disclosure under s34 of the *Freedom of Information Act 1983*. Cabinet documents are given a wide interpretation and the exemption is strictly applied so as to ensure the confidentiality of Cabinet deliberations.

1.30 Cabinet confidentiality is quite understandable for many of the matters considered by Cabinet, such as new policy proposals or significant policy variations, or major expenditure proposals such as the establishment of the \$1 billion Federation Fund. However, when ministers are making administrative decisions on merit as to whether to allocate funding to proposal A or proposal B, the convention of Cabinet confidentiality can, unless otherwise addressed, inhibit the transparency of the decision-making process.

1.31 This illustrates the tension between the needs of Cabinet to have a forum for full and frank discussions where its deliberations are not documented, and the need to draw on documentation to demonstrate that ministerial decision-making, whether taken individually or collectively, complies with the high standards of accountability articulated in the Ministerial Responsibility Guide and *Cabinet Handbook*.

1.32 Where Cabinet or one of its committees is making administrative decisions or judgments involving the meritorious selection of one project proposal over another, documentation, suited for the purpose, recording the appraisal process and the reasons for selecting particular projects, would enable governments to demonstrate the greatest benefit from the expenditure of public funds in the public interest. This would promote greater parliamentary and public confidence in the selection process. In addition, such reasons would aid officials to progress selected projects and, subsequently, evaluate the programme in full knowledge of the project's expectations and their anticipated contribution to achieving the programme objectives.

2. Planning, Selection and Announcement Process

This chapter examines the development of the Federation Fund programme and the project selection process; the assessment of solicited and unsolicited proposals by the Federation Fund Taskforce culminating in the provision of information to a Committee of Ministers; and the Ministerial assessment process. The results of the selection process and the announcement of selection results are also analysed. The chapter concludes with the identification of opportunities for improvement for any future funding assistance programmes of a similar nature to the Federation Fund.

Policy development and programme planning

2.1 Cabinet approved the Federation Fund programme ‘under-the-line’ (ie. without submission) in the lead up to the 1997–98 Budget. PM&C advised that it did not have any significant role in developing the policy underpinning the programme. Nevertheless, PM&C indicated that the planning and establishment of the Federation Fund must be seen in the context of the long and widely held view that there is a need to celebrate the Centenary of Federation. To this end, in 1994 the Council of Australian Governments appointed the Centenary of Federation Advisory Committee to advise on the goals, strategies and options for the celebration of the centenary.⁹ This Committee reported later the same year that, as part of the celebrations, the Commonwealth should consider funding national infrastructure projects.

2.2 PM&C established the Taskforce and provided substantial briefings to the Prime Minister and the Prime Minister’s Office in relation to planning the implementation of the Federation Fund programme. As PM&C considered that its role was focussed on the facilitation of proposal selection by Ministers, PM&C did not see itself having any part to play in considering many planning issues common to funding assistance programmes, including, for example:

- the conduct of a needs analysis (for example, an analysis of regional socioeconomic trends, unemployment rates and trends) to assist the Government to better target Federation Fund allocations to the greatest areas of need around Australia;

⁹ Centenary of Federation Advisory Committee (1994), *2000: A report from Australia*, foreword.

- risk identification, analysis, assessment, prioritisation and treatment early in the programme to limit the potential for inequitable treatment of proposals, funding substitution,¹⁰ ‘double dipping’ and any conflicts of interest;
- setting the context for the programme by mapping other possible sources of funding (for example, other Commonwealth programmes, State/Territory and local government programmes, and the private sector) for proposals considered under the Federation Fund;
- programme performance measures or indicators and the means to subsequently evaluate the success of the programme; and
- programme guidelines for external users as well as internal administrative procedures.

2.3 However, in the ANAO’s view, programme planning and analysis would have improved the rigour of the departmental assessment process and, quite likely, PM&C’s advice to the Government. It would also have better facilitated the transfer of projects to the administering departments and the monitoring and evaluation of the programme as a whole. That said, there was no indication that Ministers were not satisfied with the selection processes.

Proposed selection process

Letters to Premiers and Chief Ministers

2.4 The 1997 Budget night announcement of the Federation Fund programme indicated that the Prime Minister would write to Premiers and Chief Ministers indicating the broad criteria that would apply to the selection of projects and seeking their views on possible projects that might be funded from the Federation Fund. The Prime Minister’s letter to Premiers and Chief Ministers of mid-June 1997, expanded on the programme’s strategic objectives (see Table 1) announced in the Budget. The letter included the following indicators:

- During assessment, the Commonwealth would have regard to the proposals’ economic viability, local/national costs and benefits, and expected public, social and cultural benefits (including the likely usage and general appeal of the proposed facility).
- The Commonwealth would select projects on their individual merits.
- The four largest States should limit their suggestions to a few projects seeking a minimum level of \$25 million of Federation funding for each, as a preliminary guide.

¹⁰ ie. Federation funding directed to projects that would otherwise go ahead using funding from other sources.

- The Commonwealth would consider unsolicited proposals from parties other than Premiers and Chief Ministers on their merits, but proposed to consult with the relevant State or Territory government on such selections.
- It was envisaged that the Prime Minister would write to Premiers and Chief Ministers again later in the year (1997) seeking greater detail in relation to those project suggestions the Commonwealth considered appropriate.

Initial design of Federation Fund selection process

2.5 The design of the Federation Fund selection process had not been settled at the time the Prime Minister wrote to Premiers and Chief Ministers and, in fact, changed a number of times during the assessment process. The first suggested design, put forward in mid-July 1997, was for PM&C to brief the Prime Minister on the range of proposals received and their suggested rankings and submit the projects to Cabinet (or a small group of Ministers) for consideration and approval before Christmas 1997. In early-August 1997, the selection process was revised when the Federation Fund Taskforce was established within PM&C to enable the selection of projects as early as the end of September 1997. The Taskforce consisted of a PM&C officer and officers seconded from the then Departments of Communications and the Arts; Primary Industries and Energy; and Transport and Regional Development. In August 1997, and again in mid-November 1997, the Leader of the Government in the Senate indicated to the Senate Finance and Public Administration Legislation Committee that it was the Prime Minister's intention to announce approved projects by the end of 1997.

December 1997 proposed process

2.6 In mid-December 1997, the Prime Minister submitted for Cabinet's consideration a proposed process for handling proposals from Premiers and Chief Ministers and unsolicited proposals. In respect of the latter, the plan involved the Taskforce preparing an *Initial Assessment* for each unsolicited proposal based on selection criteria derived from the Federation Fund programme objectives. The Taskforce would then prepare *Detailed Assessments* for all proposals from Premiers and Chief Ministers and those unsolicited proposals shortlisted by the Taskforce, for the Government's consideration. The *Detailed Assessments* were to be designed to arrive at judgments as to whether the projects' likely benefits (for example, economic, social, cultural and heritage) outweighed their likely costs (financial, environmental, social). Federation funding distributions to the States/Territories would be broadly based on their proportions of population. The plan acknowledged that there was sufficient information available on relatively few proposals to enable well-informed decisions to be made at that time. Under the plan, detailed

project plans were to be sought for all proposals that would be considered by the Government. The level of confidence in their contents would be assessed from supporting documentation (including cost-benefit studies, financial and risk management plans and market studies).

2.7 The plan proposed that the Government agree to support, conditionally, a limited number of proposals and others to be identified by the Government on which the Taskforce would prepare further detailed information for the Government's consideration in March 1998.

Selection process agreed by the Government

2.8 After considering the mid-December proposed process, the Government instead decided that a Committee of Ministers would meet in January 1998 to examine and report back to Cabinet on the proposals from Premiers and Chief Ministers not yet approved¹¹ and shortlisted unsolicited proposals. The Committee of Ministers comprised the following senior members of Cabinet:

- Prime Minister (Chair);
- Deputy Prime Minister;
- Treasurer;
- Minister for the Environment;
- Minister for Communications, the Information Economy and the Arts;
- Minister for Industry, Science and Tourism;
- Minister for Finance and Administration; and
- Minister for Transport and Regional Development.

2.9 The Committee of Ministers would be assisted in their task by input from relevant backbenchers and an appropriate national heritage historian.

Role of PM&C and the Taskforce in the selection process

2.10 Given that the selection of projects lay with Ministers, PM&C advised the ANAO that its role was to assess proposals and provide an informed basis for Government decision-making on the allocation of support from the Federation Fund. PM&C also advised that the primary task of the Taskforce, established for this purpose, was to collate the various proposals from Premiers and Chief Ministers, to consult with other Commonwealth departments and agencies on their merits and viability, and to present that information to the Committee of Ministers

¹¹ At the time this decision was taken, the Government had already approved a number of projects including the Alice Springs to Darwin Railway, the National Gallery of Victoria and Jervis Bay Infrastructure Enhancement.

for its consideration. The Taskforce was not expected to rank the proposals but to present information to Ministers in a manner that would assist Ministers in their selection process.

2.11 PM&C indicated that the final selection of projects required Ministers to exercise their ministerial judgment on matters in relation to which public servants' advice was only one input. Other inputs included the views of Premiers, Chief Ministers, backbenchers and the overall balance of the package in relation to the objectives of the Fund.

2.12 Figure 1 illustrates the planned selection process for Federation Fund projects.

Role of other departments in the process

2.13 The role of other departments in the Federation Fund selection process was confined primarily to providing comments on proposals where sought by the Taskforce. As noted earlier, the then Departments of Communications and the Arts; Primary Industries and Energy; and Transport and Regional Development each provided an officer with relevant experience and expertise to the Taskforce. This reflected PM&C's judgment about the types of projects that would require assessment. After the selection process was completed, the Taskforce was disbanded and the ongoing management of approved projects was devolved to the administering departments.

Implementation of the selection process

Overview

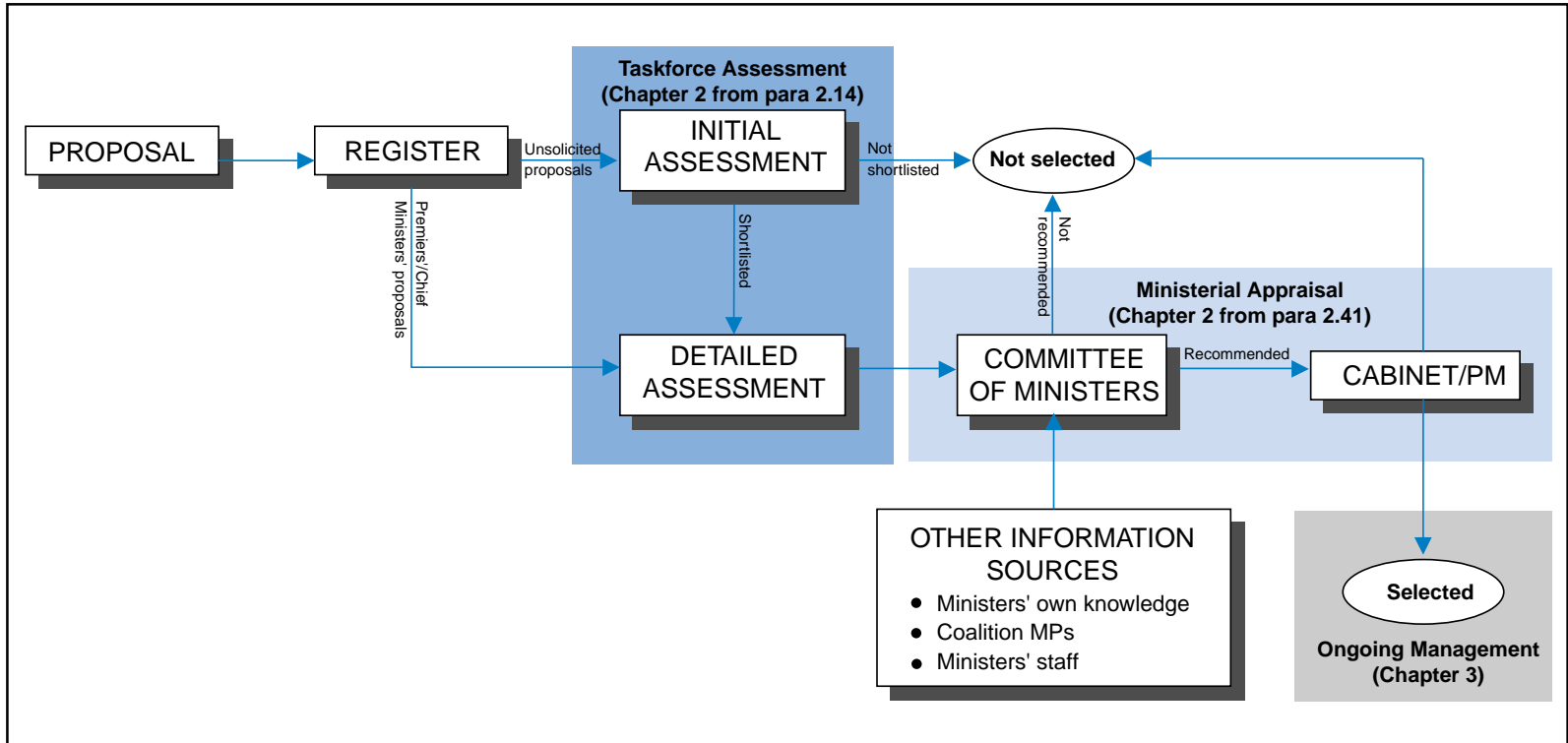
2.14 In total, Premiers and Chief Ministers sought in excess of \$3 billion funding for 59 proposals.¹² In addition, unsolicited proponents sought in excess of \$5.3 billion funding for 364 proposals. Unsolicited proposals were received from:

- Commonwealth Government ministers (including the Prime Minister);
- Commonwealth Members of Parliament (predominantly Coalition Members);¹³
- local government;
- commercial and not-for-profit organisations; and
- individuals.

¹² Including two proposals later withdrawn by the proponents.

¹³ PM&C's Register of Federation Fund proposals records 62 proposals from Coalition MPs, one from a Labor MP and one from an Independent MP.

Figure 1
Planned Federation Fund selection process



2.15 The Taskforce shortlisted 13 unsolicited proposals as a result of the initial assessment process and prepared *Detailed Assessments* on these. It also prepared *Detailed Assessments* on a further 40 unsolicited proposals that did not go through the initial assessment process, and on all remaining proposals from Premiers and Chief Ministers.¹⁴ The Committee of Ministers considered all *Detailed Assessments* and made recommendations to Cabinet and/or the Prime Minister. Cabinet and/or the Prime Minister approved 19 proposals from Premiers and Chief Ministers valued at \$546 million, representing 60 per cent of major projects funding and 21 unsolicited proposals valued at \$360.7 million for Federation funding.

2.16 The following sections examine the key functions performed by the Taskforce and Ministers during the Federation Fund selection process.

Taskforce assessment

Handling unsolicited proposals

2.17 The primary role of the Taskforce, as originally envisaged by PM&C, was to deal with the various proposals from Premiers and Chief Ministers. No other individuals or organisations were asked to nominate projects, although a small number of unsolicited proposals were expected. Therefore, the processing of unsolicited proposals was envisaged to be of secondary importance. With respect to the proposals from the Premiers and Chief Ministers, PM&C assumed most would have undergone assessment at the State level before being submitted for consideration by Premiers and Chief Ministers. However, unsolicited proposals did not have the benefit of any filtering stage at State and Territory government level before being submitted to the Commonwealth. Consequently, unsolicited proposals ranged from those that clearly did not meet Federation Fund criteria to those with stronger claims which, in the opinion of the Taskforce, Ministers might wish to consider. The Taskforce needed to pay more attention to the suitability of unsolicited proposals than was necessary in the case of proposals submitted by Premiers and Chief Ministers. As such, the shortlisting process administered by the Taskforce, where Ministers considered only a subset of all unsolicited proposals, required a rigorous, equitable and transparent assessment process to ensure that the best proposals were shortlisted for consideration by the Committee of Ministers.

¹⁴ Detailed assessments were prepared for all Premiers' and Chief Ministers' proposals except for: one proposal that was clearly ineligible; two proposals withdrawn by the proponents; and three proposals that were approved before the selection process was settled.

2.18 The shortlisting process was planned to involve the Taskforce preparing a standard one-page *Initial Assessment* for each unsolicited proposal, rating the proposals as being ‘High’, ‘Medium’, ‘Low’ or ‘Nil’ against each of 16 initial assessment criteria derived from the Federation Fund programme objectives (see Table 1). Documented at the bottom of each *Initial Assessment* was the decision to shortlist, or not shortlist, the proposal for a *Detailed Assessment*. If the decision was not to shortlist, then one, or a combination, of six standard reasons, related to the selection criteria, were also expected to be documented.

Table 1

Relationship between programme objectives and initial assessment criteria

Programme objectives	Initial assessment criteria
Major projects of national significance	<ul style="list-style-type: none"> • Likelihood useful life of project, once completed, will exceed 20 years • Link to Federation and/or national focus/symbolism • Commemorative value • Cultural/Heritage benefits • Environment benefits
Projects that are to be well advanced, but not necessarily complete, by 2001	<ul style="list-style-type: none"> • Likelihood project can be completed, or well advanced, by 2000/2001
Projects that generate jobs in the construction phase	<ul style="list-style-type: none"> • Employment impact – construction
Projects that make a significant and ongoing contribution to Australia and the Australian economy	<ul style="list-style-type: none"> • Economic benefits – expected benefits • Economic benefits – level of risk • Employment impact – ongoing • Level of broad appeal/support • Likelihood project not proceeding in the next five years without Federation funding
Reasonable geographic spread of projects around Australia	<ul style="list-style-type: none"> • Extent benefits spread through community – regional • Extent benefits spread through community – state • Extent benefits spread through community – national • Social equity

Source: ANAO analysis on the basis of available evidence.

2.19 Of the 364 unsolicited proposals, 279 underwent an *Initial Assessment*.¹⁵ Only 13 (4.6 per cent of proposals that underwent an *Initial Assessment*) were shortlisted for a *Detailed Assessment*. From an examination of the completed *Initial Assessments*, the ANAO found that the proposals shortlisted were virtually no different in terms of initial assessment

¹⁵ Of the remaining 85 unsolicited proposals: 40 bypassed an initial assessment; 29 were ‘late’ having been received after the last meeting of the Committee of Ministers; five went directly to the Committee of Ministers or Cabinet or the Prime Minister; four were referred to the FCHP programme and seven duplicated other assessed proposals.

ratings than numerous proposals not shortlisted.¹⁶ This indicates that shortlisting decisions (based on the ratings against the initial assessment criteria) were not made consistently and/or factors other than the initial assessment criteria influenced decisions. The ANAO cannot make a more definitive conclusion, as the documentation of reasons for not shortlisting proposals by the Taskforce was not sufficient to demonstrate the rationale for shortlisting other proposals.

2.20 PM&C indicated that the Taskforce's assessments were not intended to be applied as a formula in light of the disparate nature of the projects proposed for funding. The ANAO notes that, although projects are of a disparate nature, the initial assessment criteria are in fact generic and can be, and were, applied to all *Initial Assessments*.

2.21 The ANAO considers that the following factors contributed to the inconsistent and fairly limited assessment of unsolicited proposals. The ANAO found that:

- many unsolicited proposals contained only limited information which, of themselves, was not sufficient to complete thorough assessments;
- the Taskforce assessors were given limited oral, and no written, guidance to aid a consistent assessment of unsolicited proposals;
- the selection criteria were intended to be of differing importance but the relative weightings applied by the Taskforce assessors to each criteria was not documented;
- each proposal underwent an *Initial Assessment* conducted by one assessor only, increasing the risk of ratings variability between assessors. (This risk was illustrated by one proposal that, by mistake, underwent two *Initial Assessments* by different assessors—resulting in two significantly different sets of ratings);
- a significant number of proponents that submitted a number of unrelated proposals at the same time had their proposals assessed as a group rather than individually. These projects were not assessed on their individual merits and, consequently, some individual projects could have been disadvantaged; and
- reasons for shortlisting proposals were never documented.

¹⁶ The ANAO used a statistical analysis technique (specifically, logistic regression) to estimate the probability of an unsolicited proposal being shortlisted and found only one of the criteria to be statistically significant. (The logistic regression model derived indicates that a proposal given a *medium* or *high* rating for the 'Extent benefits spread through community—state' criterion is nearly 17 times more likely (at the 95 per cent confidence level) to be shortlisted than a proposal with a *nil* or *low* rating for the same criterion, all other things being equal.) This also indicates that the other 15 initial assessment criteria were not individually, or collectively, significant to the logistic regression model (at the 95 per cent confidence interval).

2.22 PM&C indicated that the Federation Fund selection process was designed for the Government to select proposals primarily from submissions provided by Premiers and Chief Ministers. Consequently, programme guidelines for wider use by the other potential proponents, were not considered necessary. Unsolicited proponents generally had only the information contained in the Budget announcement to guide them in the preparation of their proposals. Although broad programme criteria were publicly available in the 1997–98 Budget papers and were subsequently expanded upon in correspondence to Premiers and Chief Ministers, the specific programme selection criteria were not made available to any proponents and the Taskforce did not specify its information requirements. Consequently, the quality, coverage and sufficiency of the information submitted in such proposals varied considerably and the information provided was often presented in many different ways, making direct comparisons between proposals difficult.¹⁷ PM&C indicated that it was not practicable for the Taskforce to seek further information from unsolicited proponents as approaching every proponent would have been too resource intensive and approaching only some proponents may have attracted criticisms of the selection process. Furthermore, PM&C advised that it would have unnecessarily raised expectations that could never be met and would have caused significant delays in the selection process. The ANAO recognises that to seek extra information from particular proponents in an equitable manner, after proposals had been submitted, would have added to the administration of the programme and incurred additional costs.

2.23 At the time, the Taskforce believed that it would be considering some 50 proposals from all sources but became overwhelmed when over 400 proposals—mainly unsolicited—required assessment. This was an unintended consequence of the Government’s decision to consider unsolicited proposals. Nevertheless, the Taskforce did not attempt to manage this situation to ensure that the shortlisting process was as rigorous and transparent as it might have been (for example, by requesting more time or resources to complete assessments), once it became apparent that a greater number of unsolicited proposals were being received than first envisaged. PM&C advised that there were regular discussions between the Taskforce and the Prime Minister’s Office about the processes and administration of the programme; and these took account of the large number and nature of unsolicited proposals. However, the outcomes of these discussions were not recorded.

¹⁷ This is demonstrated by the fact that only 4.6 per cent of the 279 proposals that underwent an *Initial Assessment* were shortlisted and of those shortlisted, none were rated by the Taskforce higher than MEDIUM at the detailed assessment stage and only one was recommended for approval by the Committee of Ministers.

2.24 PM&C acknowledges that unsolicited proposals were treated inconsistently but contends that the programme's design was successful as the majority of projects selected, with the exception of those from NSW, were put forward by Premiers and Chief Ministers.¹⁸ PM&C indicated that, with hindsight, it would have been preferable if a tightly defined category of proponent, in addition to Premiers and Chief Ministers, had been identified.

Preparing Detailed Assessments

2.25 The Taskforce prepared *Detailed Assessments* for those 54 proposals from Premiers and Chief Ministers not previously approved,¹⁹ for 13 shortlisted unsolicited proposals and for a further 40 unsolicited proposals that bypassed the initial assessment stage. The Committee of Ministers considered all *Detailed Assessments* (with the exception of one project approved before the Committee was established) and made 31 recommendations to Cabinet. Cabinet or the Prime Minister approved all of the recommendations made by the Committee of Ministers plus other projects which were approved prior to the Committee's establishment, or were not considered by the Committee or were considered but no recommendation made.

2.26 For each proposal, the Taskforce produced a one to three-page *Detailed Assessment*. Although the Taskforce did not make recommendations or rank proposals, each *Detailed Assessment* concluded with a 'Federation Fund Suitability' rating (on a five-point scale of LOW, LOW/MEDIUM, MEDIUM, MEDIUM/HIGH and HIGH) and a separate rating for the extent of further investigation required before the proposal could be ready for implementation.

2.27 The *Detailed Assessments* were summaries of the limited, quantified and non-quantified, statements of support by proponents supplemented by, in some cases, general comments from the Commonwealth departments and agencies consulted. The December 1997 proposed process submitted by the Prime Minister to Cabinet indicated that there was sufficient information available on relatively few proposals, at that time, to enable well-informed decisions to be made. The ANAO found little, if any, evidence of any later attempt by the Taskforce to provide better information to assist the Committee of Ministers. There is little evidence of any examination of the reliability of proponents' statements

¹⁸ As noted earlier, just under half of the approved projects came from Premiers and Chief Ministers representing 60 per cent of funding, with the remainder coming from unsolicited proposals.

¹⁹ Excludes two proposals approved before the selection process was settled, two proposals withdrawn by their proponents and one proposal that was clearly ineligible.

(which is contrary to what was originally envisaged) beyond the limited information provided by the Commonwealth departments and agencies consulted. PM&C considers that, in the case of proposals from Premiers and Chief Ministers, it is entitled to rely on the veracity of the information provided.

2.28 The quality of the Taskforce's *Detailed Assessments* were also adversely affected by:

- the varying quality, coverage and lack of the information provided by proponents, (including from Premiers and Chief Ministers although, in some cases, the Taskforce sought additional information in relation to projects put forward by Premiers); and
- the less than comprehensive consultations with Commonwealth departments and agencies.

2.29 Commonwealth departments' and agencies' comments were sought, in writing or orally, on less than half the proposals that underwent a *Detailed Assessment*. PM&C considers that the composition of the Taskforce, comprising seconded officers from key departments, reduced the need for formal consultations with other agencies. Most consultations occurred with the home departments of the Taskforce members. The ANAO considers that consideration should have been given to taking the opportunity for wider Commonwealth consultations, including in relation to potential environmental and heritage implications. As the Taskforce did not clearly define the level of detail expected from departments and agencies, comments received were mostly general in nature, indicating broad support or otherwise for the proposals, rather than a commentary on the reliability of the proponents' statements or an assessment against programme objectives. Although there are a few exceptions, such as the Alice Springs to Darwin Railway and Jervis Bay Infrastructure Enhancement proposals, overall, comments received from Commonwealth departments were not of a nature that assisted greatly the detailed assessment of Federation Fund proposals.

2.30 The ANAO considers that the quality of the Taskforce's *Detailed Assessments* was limited and, consequently, may well have been more helpful to the Committee of Ministers in making well-informed decisions if they had been more rigorous and comprehensive. That said, the ANAO notes that the advice from PM&C that the Taskforce was only one source of input into the decision-making processes of the Committee of Ministers. The Committee of Ministers could have also requested additional advice from PM&C or the Taskforce if the Committee was not satisfied. However, there is no indication that this occurred.

Process anomalies

2.31 The ANAO identified a number of proposals whose assessment did not follow the planned Taskforce assessment process. There were:

- forty proposals (fifteen of which were later approved) that bypassed the initial assessment stage and proceeded directly to the detailed assessment stage;
- six proposals (none of which was approved) that underwent a detailed assessment although they were not recommended for a detailed assessment at the initial assessment stage; and
- four proposals did not undergo a detailed assessment although they were recommended for a detailed assessment at the initial assessment stage.

2.32 PM&C indicated that the proposals that bypassed the initial assessment stage included substantive proposals from Ministers and other Commonwealth (Coalition) Members of Parliament and proposals that *prima facie* met the Federation Fund selection criteria and merited detailed assessment. Furthermore, PM&C advised that *Detailed Assessments* were also prepared in response to, or in anticipation of, specific requests by the Committee of Ministers. This resulted in some projects going directly to the detailed assessment stage or the detailed assessment of some projects which the Taskforce had initially not shortlisted (such as the six mentioned above). PM&C further indicated that *Initial Assessments* were prepared for the benefit of Taskforce senior executives who, in some cases, may have decided not to follow their recommendations for detailed assessments (such as in the case of the four mentioned above).

2.33 Fifteen of the 40 unsolicited proposals (37.5 per cent) that bypassed an *Initial Assessment* were approved. Of these, 10.7 projects valued at \$82.5 million were in Coalition electorates and 4.3 projects valued at \$97.3 million were in Labor electorates.²⁰

2.34 The ANAO considers that the lack of departmental documentation surrounding the above process anomalies is not consistent with desirable transparency in the administration of such a programme.

²⁰ Fractions of proposals represent the allocation of multi-electorate proposals with discrete components to their respective electorates.

Conclusion

2.35 In providing advice to Ministers to assist them to make informed decisions in an orderly manner, it would normally be expected that the Taskforce assessment process would be rigorous, transparent and equitable. However, in practice, the Taskforce's initial assessment and shortlisting process, applied to unsolicited proposals, lacked the rigour necessary to ensure that only the best proposals were shortlisted for consideration by the Committee of Ministers as a result of:

- unsolicited proposals often lacking the degree of detail necessary for Taskforce assessors to complete thorough assessments against all programme selection criteria, because the programme selection criteria were not made available to any unsolicited proponents and the Taskforce did not specify its information requirements; and
- the inconsistent treatment of unsolicited proposals by assessors, due to the lack of adequate guidance for assessors and the lack of a quality assurance process.

2.36 The uneven treatment of the shortlisting process is demonstrated by the absence of any clear relationship between proposals that rated highly in the initial assessment process against the selection criteria and those shortlisted for *Detailed Assessments*. Some proposals recommended for a detailed assessment were not so assessed. On the other hand, some other proposals, not recommended for a detailed assessment, actually underwent a detailed assessment. However, there is no departmental documentation explaining such differences of treatment.

2.37 The Taskforce's uneven treatment, and fairly limited assessment of unsolicited proposals was apparently partly a consequence of the Taskforce being overwhelmed with the number of unsolicited proposals to assess in the timeframe required to meet the Government's expectations. Nevertheless, the Taskforce did not attempt to manage this situation to ensure that the shortlisting process was as rigorous and transparent as it might have been, once it became apparent that a greater number of unsolicited proposals were being received than first envisaged. PM&C advised that there were regular discussions between the Taskforce and the Prime Ministers' Office about the processes and administration of the programme; and these took account of the large number and nature of unsolicited proposals. However, the outcomes of these discussions were not recorded.

2.38 The detailed assessment process conducted by the Taskforce was, in general, conducted consistently. It was also more transparent than the initial assessment process as there was better documentation to demonstrate the rationale for the ratings allocated by the Taskforce.

Nevertheless, the quality of the Taskforce's *Detailed Assessments* was limited because of the:

- generally limited proposal information from all proponents, including from Premiers and Chief Ministers;
- limited documentation of the consultations with Commonwealth departments and agencies that were narrowly focussed and did not seek specific information to meet the Taskforce's needs;
- lack of examination by the Taskforce of the reliability of proponents' statements; nor obtaining detailed project plans and conducting cost/benefit analyses, as was originally planned; and
- lack of consultations on unsolicited proposals with the States and Territories, as originally planned.

2.39 Consequently, *Detailed Assessments* could well have been more helpful to the Committee of Ministers in making well-informed decisions if they had been more rigorous and comprehensive. That said, the ANAO notes the advice from PM&C that the Taskforce was only one source of input into the decision-making processes of the Committee of Ministers. The Committee of Ministers could have also requested additional advice from PM&C or the Taskforce if the Committee was not satisfied. However, there is no indication that this occurred.

2.40 The ANAO has no basis for questioning PM&C's view that the Taskforce fulfilled the role expected by the Committee of Ministers during the Federation Fund selection process. The ANAO's finding is that an enhancement of the Taskforce's role would have provided a better basis for decision-making, as well as greater parliamentary and public confidence in the selection processes and subsequent outcomes.

Ministerial appraisal

Overview

2.41 The Committee of Ministers, although not an official committee of Cabinet, was treated as such by PM&C. The Committee of Ministers met nine times over the eight months from January to August 1998 and progressively recommended projects for selection to Cabinet. In this context, PM&C advised that Ministers brought a whole of government and appropriate political perspectives to the selection process. The Committee of Ministers considered projects on a State-by-State basis within a funding cap based on each States' proportion of Australia's population. About half of the Committee's recommendations (15 out of its 31 recommendations) were made at its final meeting in early-August 1998. Cabinet and/or the Prime Minister approved all recommendations put forward by the Committee.

Selection process adopted by the Committee of Ministers

2.42 PM&C was unable to advise the ANAO, other than in a general way, what factors Ministers took into account in the selection process and weight they attributed to these factors. Consequently, the Auditor-General wrote to the Prime Minister, as chair of the Committee of Ministers, seeking advice on the extent to which the administration of the Federation Fund achieved the best outcome consistent with programme objectives and met generally accepted standards of transparency and accountability for such programmes.

2.43 The Prime Minister indicated that Ministers would have taken many factors into account in determining which projects met the selection criteria and were most likely to achieve the objectives of the Fund. Among those factors would have been the priorities of Premiers and Chief Ministers, the need to ensure a reasonable geographic spread of projects, the infrastructure needs of particular regions and the fact that it was not possible to fund all projects. The selection of Federation Fund projects involved a balancing of different views about the merits of individual proposals and a weighing of the importance of each of these factors. The Prime Minister indicated that these are tasks that the Cabinet, collectively, is ideally suited to undertake.

2.44 The Prime Minister indicated that he would expect that in most, if not all cases, Ministers would have consulted, either directly or through their staff, a wide range of individuals, including from among their parliamentary colleagues, government, industry and community contacts in the States and Territories, and senior officials in their departments and agencies. Excepting the last group, the Prime Minister indicated that he would neither ask, nor expect, Ministers to document consultations of that nature. Ministers also took account of the advice of the Federation Fund Taskforce, whose primary function was to assist the Cabinet and the Committee of Ministers in their consideration of the proposals submitted by Premiers and Chief Ministers.

2.45 The ANAO notes that the House of Representatives Standing Committee on Environment, Recreation and the Arts (HORERA) report into the Community, Cultural, Recreational and Sporting Facilities Programme emphasised the importance of the Minister involved in the selection of grants under that programme to document the processes that lead to decisions so that the Minister can be accountable to the Parliament. One of the HORERA report's recommendations was that where additional information is obtained and departmental officials' ratings are amended by the Minister, or if for any other reasons the

ratings are amended, that additional information and its impact should be documented on the public record.²¹ The Government of the time accepted the recommendation and undertook to introduce appropriate mechanisms to provide a more objective selection process should a new programme be introduced at some future time. PM&C considers the implicit comparisons between the Community, Cultural, Recreational and Sporting Facilities Programme and the Federation Fund are not valid. The former programme had a much narrower community focus and funding limitations and a single Minister made decisions. The Federation Fund was for large infrastructure projects of a disparate nature with effectively no upper limit on grants and decisions made by Cabinet, supported by a Committee of Ministers.

Information available to Ministers

2.46 As noted earlier, the ANAO considers that the quality of the *Detailed Assessments* prepared by the Taskforce was limited and they may well have been more helpful to the Committee of Ministers in making well-informed decisions if they had been more rigorous and comprehensive. The Committee of Ministers could have also requested additional advice from PM&C or the Taskforce if the Committee was not satisfied. However, there is no indication that this occurred.

2.47 There was no evidence to suggest that Ministers saw the original proposals. However, PM&C indicated that, in addition to the *Detailed Assessments*, Ministers brought to the Committee's deliberations:

- their own expertise in their areas of ministerial responsibility (for example, Environment and Heritage, and Transport and Regional Services);
- their knowledge of important issues and events nationally as well as in their own States and electorates;
- the views of individuals (including those of other ministers and backbenchers) whom they consulted; and
- familiarity with those proposals they brought forward, personally endorsed/supported, or that were otherwise brought to their attention.

²¹ House of Representatives Standing Committee on Environment, Recreation and the Arts (1994) *The Community, Cultural, Recreational and Sporting Facilities Programme: a review of a report on an efficiency audit by the Auditor-General*, pp. ix, 36.

2.48 Taskforce briefings to the Committee of Ministers and records from Committee meetings indicate that the Committee sought and/or received information on proposals from sources other than the Taskforce, PM&C and other Commonwealth departments and agencies. At various times between January and May 1998, consultations between Committee members and other Coalition Parliamentarians occurred in relation to certain States' proposals. In June 1998, a small group of ministerial advisers, chaired by the Prime Minister's Office, was tasked to examine and prioritise all remaining projects to assist the Committee of Ministers to finalise consideration of Federation Fund projects, including the timing of announcements. The Taskforce was not involved in the tasks performed by the group of ministerial advisers.

2.49 With the exception of one Minister's consultations on Federation Fund proposals in NSW, PM&C does not have records of the above consultations nor is it aware of what the consultations or deliberations of the group of ministerial advisers entailed and their impact on the selection outcomes.

Consultations with State/Territory Governments

2.50 The Prime Minister's letter to Premiers and Chief Ministers of June 1997 indicated that the Prime Minister envisaged writing to Premiers and Chief Ministers again later in 1997 to seek greater detail in relation to a selection of proposals they suggested. However, this did not occur although PM&C did seek further information from State agencies about some of their Premiers' proposals. In addition, throughout the Federation Fund assessment timeframe (ie. August 1997 to August 1998) the ANAO sighted numerous items of correspondence from the Premiers and Chief Ministers to the Prime Minister changing their lists of proposals (including additions, deletions and revised priorities). Some of these changes originated in the States and Territories, although others appear to have resulted from (mostly undocumented) conversations between Taskforce officials, Commonwealth Ministers or Ministers' staff and their counterparts in the States/Territories.

2.51 Although it was also indicated that the Commonwealth would consult with the relevant State or Territory government on unsolicited proposals, evidence of such consultations could not be found.

2.52 The Prime Minister indicated that the significantly greater number of unsolicited proposals received than originally anticipated, together with the time constraints imposed by the need for decisions to be made in good time for projects to be well advanced during the Centenary Year, meant that it was impractical for the States and Territories to be consulted to the extent originally envisaged. Nevertheless, the Prime Minister considered that the States and Territories were consulted in appropriate cases. However, it was not possible to gauge the extent of this consultation due to the general absence of programme documentation.

Transparency of the selection process

2.53 The appraisal process of the Committee of Ministers and its reasons for the recommendations made to Cabinet and/or the Prime Minister have not been documented. Under the FCHP programme, the two Ministers involved in recommending projects to the Prime Minister provided reasons for their recommendations, albeit some weeks after the decisions were made. However, the Federation Fund Major Projects programme differs from the FCHP programme in a number of important respects as follows:

- An unofficial committee of Cabinet made recommendations under the Major Projects programme; the programme being designed for projects to be approved by the Government through Cabinet. Cabinet or its committees do not normally record reasons for decisions.
- The FCHP programme had a relatively narrow focus to support the conservation of cultural heritage places and development of cultural facilities while the focus of the Major Projects programme was designed to fund a broad range of major infrastructure projects of national significance.
- Whereas applications under the FCHP programme had to be lodged by selected persons (including Commonwealth Members of Parliament) or nominated organisations, the Federation Fund Major Projects programme was designed primarily to consider a small number of proposals from Premiers and Chief Ministers (although, as noted earlier, other proposals were also considered and approved).
- Whereas the Ministers' recommendations under the FCHP programme were based primarily on the assessments provided by DCITA, DEH and the National Council for the Centenary of Federation, the information provided by the Taskforce to the Committee of Ministers under the Major Projects programme was only one input into its deliberations.

2.54 The Prime Minister indicated that the selection of Federation Fund projects was a Cabinet process. By convention, the operations of the Cabinet are governed by the principles of Cabinet confidentiality and collective responsibility. The conventions recognise that there must be a forum in which full and frank discussions by ministers can take place, uninhibited by the need to temper debate to meet sectional interests or media pressures, and in which individual opinions may be expressed freely among colleagues without public comment or exposure. A further reason for maintaining the confidentiality of Cabinet deliberations is that such confidentiality is necessary for the preservation of the principle of collective responsibility which requires that decisions, once arrived at in Cabinet, be supported by all ministers whatever their personal views. The convention is aimed at ensuring that the Government as a whole is properly accountable and responsible to the Parliament, and through it to the people.

2.55 The Prime Minister, in commenting on the proposed audit report, advised that the Federation Fund selection process should not be viewed as being purely administrative in nature. He acknowledged that there was an element of administrative decision-making, but indicated that the process also involved considerations of the national interest which Ministers are best able to determine. The Prime Minister also indicated that, although it may well be appropriate to expect the administration of relatively small discretionary grant programmes to follow procedures similar to those which apply to officials, he did not consider Ministers in Cabinet taking decisions which involve considerations of the national interest should be bound by such a process. In addition, the Prime Minister advised that Cabinet routinely takes decisions where the competing factors are not capable of being resolved by resort to cost-benefit analysis; and if the public is not persuaded of the correctness of those decisions, they will make their views known at the ballot box.

2.56 In funding assistance programmes, the ANAO notes it is usually considered important for accountability purposes that critical elements of the appraisal process and reasons for selecting particular projects for funding be appropriately documented. Nonetheless, the ANAO is mindful of the conventions of Cabinet confidentiality and collective responsibility, supported by successive governments, by the practice of not disclosing the deliberations of, or reasons for, decisions by Cabinet and its committees.

2.57 There is thus a tension here between the standards expected for public administration generally and the normal operations of Cabinet conventions. While this is properly a matter for government and

Parliament to resolve, there would be considerable merit in the government having a record, as part of its due process, of the ministerial appraisal process and the reasons for selecting, or not selecting, particular projects, particularly given that, in this instance, the value of proposals far exceeds the funds available and projects were to be selected on merit. This would promote greater parliamentary and public confidence in the selection process and could also provide a defence against any perceptions of party-political bias that may arise. Ministers' staff would be able to assist ministers to document their appraisals and the reasons for their decisions.

2.58 For the purposes of this audit, a distinction is being drawn between the policy decisions of government, and administrative appraisals or judgments made by government where projects are to be selected on merit against pre-determined objectives and criteria. The public interest is in assessing whether the processes provide confidence in the manner in which decisions were taken in order to achieve demonstrably the greatest public benefit from the expenditure of in excess of \$900 million in public funds. This would be the normal expectation of all programme stakeholders, including, in particular, those proponents who were unsuccessful. Although Ministers' deliberations in relation to major project appraisals are not expected to be made public, there would be a reasonable expectation that reasons for selecting approved projects involving the expenditure of public funds would be available publicly, at least on request, and unsuccessful proponents would be provided with reasons for their proposals not being selected where sought by the proponents concerned. PM&C considers it would not be consistent with the conventions of Cabinet confidentiality and collective responsibility for deliberations to be recorded in the manner suggested so that reasons could be made public. Nevertheless, as noted earlier, the reasons for decisions were made publicly available under the FCHP component of the Federation Fund, although in that case, the decisions were not made by Cabinet but by a committee of two Ministers.

Consistency of decision-making

2.59 When selection decisions are made progressively over a relatively long period of time, a record would allow Ministers to more readily weigh the merits of proposals against decisions taken previously, particularly given the 13-month duration of the selection process. This assists in ensuring that all the projects selected will be the best projects when judged against the programme objectives and selection criteria.

2.60 It could well be that earlier selection decisions limit the ability of decision-makers to fund more worthy projects considered later in the selection process. Therefore, it seems reasonable for decision-makers to set reasonably high standards for selecting projects early in the selection process to maximise the opportunity of selecting the best projects, perhaps with a reserve list of worthy projects that could be compared with later nominations. Where the selection process extends over a long period of time, as in this case, documentation of the appraisal process and reasons for selecting particular projects early in the selection process provides a point of reference for informing decision-makers' subsequent decisions in achieving best value for money by whatever manner that is to be assessed. Using appraisal forms or checklists as working documents, as opposed to using them solely to record decisions, can be helpful in maintaining consistency in decision-making over time.

2.61 PM&C considers that such a process may well be appropriate for programmes which are narrowly focussed, have strict objectives and are administered by relatively junior officials who may be replaced in the course of the programme as a result of normal staff turnover. However, PM&C considers it is unrealistic to expect a decision-making body such as a Committee of Ministers to adopt such a process in relation to a programme whose purpose was to commemorate the Centenary of Federation. Bearing in mind that Ministers took many factors into account in their decision-making process, including their own knowledge and understanding of issues in the States and Territories in relation to the projects in question and their own concept of the national interest, PM&C suggests that the reasons for ministerial decisions in relation to any one project were not capable of being reduced to a form of words which would have been of any assistance to Ministers in their consideration of an entirely different project six or 12 months later.

2.62 The Prime Minister noted that unlike long term discretionary grant programs administered by officials, where staff turnover and loss of corporate memory may be factors, the Committee of Ministers considered all projects over a relatively short period of time and its composition was unchanged throughout. He indicated that as extensive briefings would have been provided for each meeting of the Committee he doubted it would have been necessary to remind members of the reasons why an earlier decision had been made.

Timing of selection process

2.63 In August and mid-November 1997, the Government indicated that it was the Prime Minister's intention to announce approved projects by the end of 1997. Project selection at this time would have given selected proponents more than three years to complete their projects before the

end of the Centenary of Federation Year. However, the overwhelming majority of projects were selected from January to August 1998, with most of these being announced in September 1998.

Process and selection anomalies

2.64 The ANAO found that many proposals met the broad programme selection criteria, including all 40 approved projects, demonstrating the importance of a rigorous, transparent and equitable selection process that selected those projects that best matched the Federation Fund programme objectives. However, a number of proposals did not follow the planned selection process including:

- five proposals (four of which were approved—Federation Parks Initiative (Vic and SA Defence Lands), Very Fast Train proving stage, Manuka Oval and Shrine of Remembrance) that bypassed any form of Taskforce assessment and went directly to either the Committee of Ministers or the Prime Minister;
- three proposals (St. Andrew’s Cathedral, National Wine Centre and ANZAC Hall) approved by the Prime Minister that had been considered by the Committee of Ministers, but no decisions had been made whether or not to recommend them for approval; plus
- one proposal (Australian Centre for Christianity and Culture) that was not recommended for shortlisting by the Taskforce but went directly to, and was approved by, the Prime Minister.

2.65 Reasons for the selection of two of the five proposals that bypassed any form of Taskforce assessment are already on the public record in answers to questions from hearings of the Senate Finance and Public Administration Legislation Committee:

- The Manuka Oval project proposal was originally treated as a sports-funding matter. Discussions with the proponent took place over the 12 months prior to the Prime Minister agreeing, on 27 August 1998, to provide \$1 million for the project from the Federation Fund. The proposal was not brought to the Committee of Ministers because consideration of the proposal was at an advanced stage.
- In relation to the Very Fast Train ‘proving stage’ project, the NSW Minister for Transport advised that the NSW Government would be agreeable to its ‘proving up’ contribution being funded from the Federation Fund. The Prime Minister agreed to provide \$1 million from the Federation Fund on 27 August 1998. The proposal was not brought to the Committee of Ministers because agreement had been reached following consultations between the two governments.²²

²² Senate Finance and Public Administration Legislation Committee (1999), *Examination of the Budget Estimates 1999–2000: Additional Information Received*, Vol. 1, p. 130.

2.66 In relation to other proposals not subject to the planned selection process, the Prime Minister provided an explanation of the circumstances relating to each that provides examples of the kind of input into the decision-making process that the Prime Minister considers is appropriate for Ministers to inject. The Prime Minister indicated that:

- The Shrine of Remembrance project was originally proposed by the then Premier of Victoria for consideration under the FCHP programme. The Prime Minister indicated that the proposal was raised again by a senior Minister from Victoria with particular knowledge of the project at the Committee of Ministers meeting on 3 August 1998. At this time Ministers agreed that the project met the Federation Fund criteria and that it was worthy of support.
- The Australian Centre for Christianity and Culture was originally proposed by the President of the Senate and assessed by the Taskforce shortly thereafter.²³ The project was also discussed at a meeting between the Prime Minister and the Anglican Bishop of Canberra and Goulburn in May 1998. The matter was raised at the Committee of Ministers meeting on 3 August 1998 and discussed again at a meeting of senior Ministers on 26 August following which the Prime Minister agreed to a Commonwealth contribution of \$5 million.
- The Federation Parks Initiative (Vic and SA Defence Lands) project was included in the Prime Minister's submission to Cabinet in December 1997. The NSW component of this (the Sydney Harbour Federation Trust project) had been proposed by the then Leader of the Opposition in NSW and was assessed by the Taskforce in line with its usual procedures. The Prime Minister was of the view that the Sydney Harbour Federation Trust project had merit and that the concept could be expanded to take in surplus Defence properties in other States. Cabinet agreed that Federation Parks Initiative (Vic and SA Defence Lands) proposal should be considered further by the Committee of Ministers together with the Minister for Defence. Rather than the Taskforce preparing the proforma detailed assessment, there was consultation with the Department of Defence and a paper was prepared for consideration by the Committee of Ministers at its meeting of 19 January 1998. The Committee considered the proposal and requested a briefing from the Minister of Defence. The proposal was then approved by Cabinet on 20 January.

²³ The Taskforce did not recommend this proposal for a *Detailed Assessment*.

- The proposal to fund St. Andrew's Cathedral was first raised by the Minister for Finance in November 1997. The Prime Minister discussed the project with the Anglican Archbishop of Sydney on 17 December, before the Committee of Ministers was established. The Prime Minister considered the project met the Federation Fund criteria and was worthy of support; the project was formally approved on 20 February 1998. Having decided that the Commonwealth would provide funding for the project through the Federation Fund, the Prime Minister advised the he did not feel it warranted any further action, such as consideration by the Committee of Ministers, before the announcement was made.
- While no formal decision to support the ANZAC Hall project was recorded by the Committee of Ministers, the project was included in its agenda for meetings on 30 June, 7 July and 3 August 1998. The Prime Minister received further briefing about this project on 26 August 1998 and discussed it, along with other Federation Fund projects, with senior ministers on that day. Senior ministers were inclined to support ANZAC Hall and the Prime Minister made a decision to provide funding on 27 August. This was noted by the full ministry on 1 September 1998.

2.67 In order to demonstrate that selection process is equitable (ie. projects were selected on their individual merits against the selection criteria), projects should be assessed against the same set of selection criteria related only to the programme objectives. The ANAO identified one project, the National Wine Centre in Adelaide, whose selection appears to have been influenced by factors outside the selection criteria. A memorandum to the Prime Minister from the Minister for the Environment dated July 1998 indicated that, although SA's share of the Federation Fund was otherwise exhausted by the Alice Springs to Darwin Railway project, in return for Federation funding for the National Wine Centre project, the SA Government would be prepared to buy 'Glenthorne', a CSIRO property, from the Commonwealth. The Taskforce rated this project as LOW and there could be a perception that greater weight was given to factors outside the selection criteria. The Prime Minister indicated that the Commonwealth negotiations for the possible sale of the CSIRO property may have been assisted by the possibility of a financial contribution to the National Wine Centre project. However, the final result was a common sense outcome for the Commonwealth and South Australia.

2.68 Better practice suggests that Commonwealth funding directed to projects that would otherwise go ahead without such funding does not represent value for money. In such circumstances, the Commonwealth's funding is usually substituting part or all of the recipient's expenditure on the project. The ANAO noted two approved projects (Refurbishment of No.4 Treasury Place and Tamworth Regional Entertainment Centre) where it was not evident from PM&C's records what difference Federation funding made to the projects proceeding. The Department of Finance and Administration (Finance) indicated that the Refurbishment of No.4 Treasury Place building was undertaken as part of Finance's ongoing programme of asset management and would have proceeded irrespective of the full or partial availability of Federation Funds. At the time the Tamworth Regional Entertainment Centre was approved, the project was substantially completed. The Prime Minister indicated that the latter project enjoyed a particularly high level of support in the local community. Although the Centre was substantially complete by the time it was formally considered by Ministers, the Tamworth Council had, in fact, factored a contribution of \$1.25 million from the Commonwealth into its budget for the project. The Committee of Ministers was aware that the Council was proceeding on that basis and, having decided that the project met the criteria for Federation Fund assistance, agreed to provide the required funds out of the Federation Fund.

2.69 Of the eight approved projects not subject to the planned selection process, two projects valued at \$22 million were in Coalition electorates, five projects valued at \$27.9 million were in Labor electorates and one project valued at \$1 million was a multi-electorate project.

Conclusion

2.70 As noted earlier, the ANAO considers that the quality of the *Detailed Assessments* prepared by the Taskforce was limited and they may well have been more helpful to the Committee of Ministers in making well-informed decisions if they had been more rigorous and comprehensive. However, the ANAO notes the advice from PM&C that the Taskforce was only one source of input into the decision-making processes of the Committee of Ministers. The Committee of Ministers sought advice on the selection of projects from sources other than the Taskforce, including other ministers, backbenchers, and a small group of ministerial advisers. However, with the exception of one Minister's consultations on Federation Fund proposals in NSW, this advice, its particular sources and impact on the selection outcomes has not been documented.

2.71 The ANAO found that many proposals met the broad programme selection criteria, including all 40 approved projects, demonstrating the importance of a rigorous, transparent and equitable selection process that selected those projects that best matched the Federation Fund programme objectives. However, a number of proposals did not follow the planned selection process. Reasons for the selection of some of these projects are already on the public record and the Prime Minister provided reasons for the selection of the remainder of these projects to the ANAO.

2.72 The lack of documentation surrounding the Ministerial appraisal process and reasons for decisions precluded the ANAO from forming an opinion as to whether the Federation Fund proposals that were selected from those considered by the Government were likely to represent best value for money in terms of the programme objectives. From the information available to it, the ANAO is not in a position to determine whether:

- the decisions made reflect a differing emphasis on particular selection criteria by the decision-makers from that of the Taskforce;
- information from non-departmental sources increased the worthiness for funding of some of the selected projects in the eyes of decision-makers; and/or
- the selection process was sufficiently rigorous and consistent to provide reasonable assurance that the projects selected best matched the programme objectives.

2.73 In funding assistance programmes, it is considered important for accountability purposes that reasons for selecting particular projects for funding should be appropriately documented. Nonetheless, the ANAO is mindful of the conventions of Cabinet confidentiality and collective responsibility, supported by successive governments, by the practice of not disclosing the deliberations of, or reasons for, decisions by Cabinet and its committees. There is thus a tension here between the standards expected for public administration generally and the normal operations of Cabinet conventions, which is properly a matter for government and Parliament to resolve. For the purposes of this audit, a distinction is being drawn between the policy decisions of government, and administrative appraisals or judgments made by government where projects are to be selected on merit against pre-determined objectives and criteria. The public interest is in assessing whether the processes might have provided confidence in the manner in which decisions were taken in order to achieve demonstrably the greatest public benefit from the expenditure of in excess of \$900 million in public funds. This would be the normal expectation of all programme stakeholders, including, in particular, those proponents who were unsuccessful.

Results of the selection process

Introduction

2.74 It is generally accepted that access and equity considerations are very important elements in the administration of all Commonwealth programmes. Parliament and the general public frequently raise questions about the party-political distribution of approved projects. Consequently, the ANAO analysed the distribution of approved projects by State, by Taskforce rating, by political party, and by proponent.²⁴

2.75 Except in relation to one State-wide approved project,²⁵ the components of a number of multi-electorate projects have been allocated to their respective electorates and political parties. However, the ANAO cautions that projects in one electorate can also benefit residents of other electorates. This is particularly so where funding is directed towards large national and regional projects of a capital nature, which is the case for many approved Federation Fund projects.

Funding allocations to the States

2.76 One of the strategic objectives for the Federation Fund is ‘a reasonable geographic spread of projects around Australia’. The Government and the Taskforce gave no indication publicly as to how this was to be achieved. Nevertheless, Taskforce briefings to the Committee of Ministers contained notional funding allocations based on the distribution of population in the States and Territories, adjusted over the length of the assessment process to take into account approvals to that time. With the staggered approval of proposals throughout the Federation Fund assessment timeframe, some States’ funding allocations were filled earlier than others.

2.77 Table 2 compares actual allocations to notional allocations based on adjusted population distributions that were the basis of Taskforce briefings to the Committee of Ministers. The adjustments relate to the National Museum of Australia (NMA) (in the ACT) and the Alice Springs to Darwin Railway (SA/NT) projects, both of which were approved early in the Federation Fund selection process and incorporated into the notional allocations for the States/Territories concerned.

²⁴ As has been noted previously in ANAO audit reports, any analysis of the distribution of grants to electorates or States cannot, by itself, clearly indicate one way or another that there is, or is not, any party-political bias. Any apparent weighting could be the result of greater assessed need in terms of the selection criteria in electorates or States held by a particular side of politics and/or the quality of proposals. It has also been noted in the FCHP audit report that decisions made by the Government can carry certain party political advantages as well as benefit the public interest. In the absence of an appropriate explanation of the reasons for decisions, only those who made the recommendations and, more particularly those who approved the projects know what was the basis for their selection.

²⁵ ie. the Very Fast Train proving stage project in NSW.

Table 2**Comparison of notional to actual funding allocations by State**

State/Territory	Notional allocations (\$m) ^a	Actual allocations (\$m) ^b	Difference (\$m)	Increase/Reduction (%)
NSW ^c	250.3	212.5	-37.8	-15.1
Vic	184.0	172.3	-11.7	-6.4
Qld	135.0	130.0	-5.0	-3.7
WA	71.1	85.0	+13.9	+19.5
SA/NT ^d	100.0	115.0	+15.0	+15.0
Tas	19.2	21.5	+2.3	+11.8
ACT ^c	147.0	170.4	+23.4	+15.9
AUSTRALIA	906.6^e	906.7		

a – Based on adjusted population data (see text).

b – For the purposes of this analysis, the state allocation of funding for two multi-state projects have been allocated to their respective states – NSW (+\$22 million), Vic (+\$29 million), and SA (+\$3 million).

c – Should NSW and ACT be considered together due to interrelated benefits of projects in the two jurisdictions, the difference between the combined notional and actual allocations would be -\$14.4 million, a decrease of 3.6 per cent.

d – SA and NT have been combined because the Premiers of both jurisdictions sought and received funding for the same project – the Alice Springs to Darwin Railway.

e – Rounding error.

Source: ANAO analysis of PM&C records.

2.78 Table 2 illustrates that the smaller States and the Northern Territory received a significantly greater proportion of Federation Funds than would otherwise be determined on the basis of their proportions of Australia's population. This is not an uncommon situation with respect to many national financial assistance programmes (for example, the FCHP programme where the Ministers considered that had decisions been taken solely on the basis of population, the smaller States would have done extremely poorly). Given the nature of major project funding, it is to be expected that there would be some variation between the notional allocations and actual allocations based on population proportions.

Taskforce ratings

2.79 It would normally be expected that projects that were rated highly by the Taskforce would be those more likely to be recommended by the Committee of Ministers to Cabinet for approval. The ANAO examined the Federation Fund Suitability ratings allocated to the *Detailed Assessments* prepared by the Taskforce and considered by the Committee of Ministers. Table 3 illustrates the ratings given by the Taskforce (on a five-point scale of LOW, LOW/MEDIUM, MEDIUM, MEDIUM/HIGH and HIGH) to approved proposals and all proposals considered by the Committee of Ministers (plus those approved proposals where *Detailed Assessments* were not prepared).

Table 3**All approved proposals by Taskforce rating**

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No.	Value (\$m)	No.	Value (\$m) ^a	By No.	By Value
High	10	344.3	20	1228.5	50.0	28.0
Medium/High	5	36.1	5	36.1	100.0	100.0
Medium	11	200.8	52	2671.5	21.6	7.9
Low/Medium	2	12.0	6	41.3	33.3	29.1
Low	4	19.6	24	777.6	16.7	2.5
<i>Not Rated^b</i>	<i>8</i>	<i>294.0</i>	<i>9</i>	<i>311.0</i>	<i>88.9</i>	<i>94.5</i>
AUSTRALIA	40	906.7	116	5066.0	34.5	17.9

a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

b – *Detailed Assessments* were not prepared for these proposals. It includes the NMA, Alice Springs to Darwin Railway and National Gallery of Victoria projects approved before the Federation Fund Assessment Process was settled. Also included are the Manuka Oval, VFT proving stage, Australian Centre for Christianity and Culture, Federation Parks Initiative (Vic and SA Defence Lands), and Shrine of Remembrance projects.

Source: ANAO analysis of PM&C records.

2.80 The ANAO found that, nationally, 65 per cent of proposals approved had a Taskforce rating of MEDIUM or higher. However, the ANAO found considerable divergence in the proportions of approvals on a State to State basis (the level at which the Committee of Ministers made its recommendations).

2.81 Five of the six approved projects that were rated by the Taskforce below MEDIUM were in NSW and Vic. These lower rated proposals were selected in preference to numerous higher rated proposals from those States. The ANAO recognises, however, that each State's funding allocation limit meant that some of the large value proposals rated highly by the Taskforce could not have been fully funded.²⁶ Nevertheless, some other higher rated proposals not funded sought Federation funding of the magnitude of the lower rated proposals approved. Although Ministers may quite legitimately come to a different view from that of a Taskforce of officials as to the merits of particular proposals, documenting the reasons for selection ahead of other proposals would enhance transparency. Appendix 2 lists the ratings of approved projects by State.

²⁶ For example, three of the four HIGH rated proposals in NSW not funded each sought in excess of \$120 million in Federation funding. The one HIGH rated proposal in Vic that was not funded sought more than that State's entire funding allocation.

2.82 The ANAO examined the process through which lower rated proposals came to be recommended by the Committee of Ministers and/or approved by Cabinet or the Prime Minister. Of the 30 proposals rated by the Taskforce as LOW/MEDIUM or LOW considered by the Committee of Ministers and/or the Prime Minister:

- 18 followed the planned selection process (five in Coalition electorates, eight in Labor electorates and five multi-electorate proposals) of which one (in a Labor electorate) was approved—an approval rate of 5.6 per cent; and
- 12 did not follow the planned selection process (nine in Coalition electorates, one in a Labor electorate and two multi-electorate proposals) of which five were approved (four in Coalition electorates and one in a Labor electorate)—an approval rate of 41.7 per cent.²⁷ This approval rate was significantly higher, in a statistical sense (at the 90 per cent confidence interval), than the approval rate of all lower rated proposals.

2.83 This situation highlights that, from the perspective of sound public administration, all proposals should follow the same selection process unless there are good reasons for doing otherwise. Again, documentation of those reasons would enhance the transparency of the process and avoid any perception that the selection process was varied for party-political purposes, particularly where judgment plays a significant role.

Distribution by political party

2.84 The ANAO analysed the distribution of approved projects in electorates held by particular political parties to the distribution of House of Representatives electorates prior to the 1998 Federal election.²⁸ The ANAO found that, although the Coalition held 63.5 per cent of the electorates in the House of Representatives, only a little over half the number of approved projects, representing a little under 40 per cent of available programme funding, were in Coalition electorates. Although Labor held 31.8 per cent of the electorates, 43.6 per cent of the number of approved projects, representing some 60 per cent of programme funding, were in Labor electorates.

²⁷ Four of the five approved proposals were unsolicited and bypassed an initial assessment. The remaining one was from the SA Premier and was approved by the Prime Minister after it was considered by the Committee of Ministers, but no decision had been made whether or not to recommend the proposal for approval.

²⁸ The political status of electorates has been based on the seat status at the time of the 1998 Federal election, taking into account the Australian Electoral Commission's notional adjustments following boundary redistributions in WA, Qld and the ACT in 1997. Where possible the ANAO applied a statistical test to the results of the approval process and any differences of statistical significance were identified. Such statistically significant differences are those that cannot be explained by random variation alone. The ANAO has determined the difference to be statistically significant where the confidence level is at least 90 per cent.

2.85 Tables 4 and 5 compare approved projects in electorates held by particular political parties to the proposals put before the Committee of Ministers, Cabinet and/or the Prime Minister for their consideration.

Table 4

Approved proposals by political party: number^a

Political Party	No. of all approved proposals	No. of proposals put before the Committee of Ministers, Cabinet and/or the PM	Percentage of proposals approved
Coalition	20.6 (51.4%)	47.6 (41.0%)	43.3
Labor	17.5 (43.6%)	40.5 (34.9%)	43.2
Independent	1.0 (2.5%)	3.0 (2.6%)	33.3
Multi-electorate	1.0 (2.5%)	25.0 (21.5%)	4.0
AUST	40.1^b (100.0%)	116.1^b (100.0%)	34.5

a – Fractions of proposals represent the allocation of multi-electorate proposals with discrete components to their respective electorates and political parties.

b – Does not total correctly due to rounding error.

Source: ANAO analysis of PM&C records.

Table 5

Approved proposals by political party: value

Political Party	Value of all approved proposals (\$m)	Value of proposals put before the Committee of Ministers, Cabinet and/or the PM (\$m) ^a	Amount approved as a percentage of amount sought
Coalition	354.6 (39.1%)	794.1 (15.7%)	44.7
Labor	545.2 (60.1%)	1518.0 (30.0%)	35.9
Independent	6.0 (0.7%)	20.4 (0.4%)	29.4
Multi-electorate	1.0 (0.1%)	2733.5 (54.0%)	<0.1
AUST	906.8^b (100.0%)	5066.0^b (100.1%)^b	17.9

a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

b – Does not total correctly due to rounding error.

Source: ANAO analysis of PM&C records.

2.86 An analysis of Table 4 indicates that, nationally, the distribution by political party of proposals approved reflects the distribution of proposals considered by the Committee of Ministers, Cabinet and/or the Prime Minister. The percentages of proposals approved in Coalition

and Labor electorates are almost identical. Table 5 indicates that, nationally, projects in Coalition electorates did better than those in Labor electorates in terms of the percentage of funding sought, although Labor electorates received more Federation funding in total.

2.87 A State-by-State analysis of project distribution by political party indicates that the success rate of NSW projects in Labor electorates is significantly lower, in a statistical sense, than the success rate for Labor electorates nationally (at the 90 per cent confidence interval) (see Table 6).²⁹ Only 16.7 per cent of projects in NSW Labor electorates considered by the Government were approved, whereas the approval rate for projects wholly in Labor electorates nationally was 42.5 per cent.³⁰ This result occurred in circumstances where Labor held a greater proportion of electorates in NSW than it did nationally. There is a similarly large (though not statistically significant) variation between the value of projects approved in Labor electorates in NSW and Labor nationally.

Table 6

NSW approved proposals by political party^a

Political Party	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No.	Value (\$m)	No.	Value (\$m) ^b	By No.	By Value
Coalition	11 (73.3%)	63.5 (33.3%)	26 (51.0%)	236.7 (12.2%)	42.3%	26.8%
Labor	2 (13.3%)	30.0 (15.7%)	12 (23.5%)	432.5 (22.2%)	16.7%	6.9%
Independent	0 (0.0%)	0.0 (0.0%)	1 (1.9%)	5.4 (0.3%)	0.0%	0.0%
Multi-electorate	2 (13.3%)	97.0 (50.9%)	12 (23.5%)	1269.0 (65.3%)	16.7%	7.6%
NSW	15 (100.0%)	190.5 (100.0%)	51 (100.0%)	1943.6 (100.0%)	29.4%	9.8%

a – Unlike Tables 4 and 5, multi-electorate proposals with discrete components have NOT been allocated to their respective electorates and political parties. Had they been allocated, approved proposals in Coalition electorates would have increased to 12.2 proposals valued at \$135.5 million, in Labor electorates would have increased to 2.3 proposals valued at \$76.0 million and in multi-electorates would have decreased to one proposal valued at \$1 million.

b – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

Source: ANAO analysis of PM&C records

²⁹ Some other States do have large variations, although they are not statistically significantly different to the national average. For example, only 16.7 per cent of proposals in Coalition electorates in Qld were approved although the Coalition held 88.6 per cent of all electorates in Qld. No proposals from Coalition electorates in WA were approved although the Coalition held 57.1 per cent of all electorates in WA.

³⁰ The national approval rate for projects in Labor electorates differs to that reported in Table 4 as the latter includes multi-electorate proposals with discrete components that have been allocated to their respective electorates.

Proposals from Premiers and Chief Ministers

2.88 The Federation Fund programme was targeted primarily at proposals nominated by Premiers and Chief Ministers. However, as noted earlier, it was always intended that nominations from other sources would be accepted but this was expected to be the exception rather than the rule. In the event, Premiers' and Chief Ministers' proposals represented a little under half of all approved proposals and some 60 per cent of approved funding for the major projects. The approval rate of Premiers' and Chief Ministers' proposals (33.3 per cent) was very similar to the approval rate of shortlisted unsolicited proposals (35.6 per cent).

2.89 To ensure the equity of the programme it is important that proposals from all Premiers and Chief Ministers undergo a similar selection process and are treated on their merits. Where the pattern of approvals differs from the pattern of proposals, a well-documented process will assist in explaining any apparent variations. The ANAO analysed the approval of Premiers' and Chief Ministers' proposals as a proportion of all approved proposals by State/Territory and found that: virtually all approved proposals in Qld, WA, SA/NT and Tas; and most of Vic's approved proposals; were put forward by their Premiers and Chief Ministers. However, only about one-quarter of NSW's approved proposals, and none of ACT's five approved proposals were put forward by their Premier/Chief Minister.

2.90 Whereas the ACT Chief Minister's proposals were all rated LOW by the Taskforce in terms of their suitability, the Taskforce rated many of the NSW Premier's proposals as HIGH and MEDIUM. The Prime Minister indicated that ACT proposals were not accepted, in the main, because of the disproportionate expenditure allocated to projects in the ACT which were of a 'national' nature. The Prime Minister noted that PM&C had previously advised the ANAO that the apparent discrepancy in the case of NSW 'reflected the arrangements for developing the list prepared by the NSW Premier and the inappropriateness of a number of proposals submitted'. In addition, the Prime Minister noted that this factor, coupled with the delay in the response and the limited time for project selection meant that the Government had little guidance from the State on proposals and was obliged to look elsewhere for suitable projects. The Prime Minister further advised that the projects considered by Ministers in these circumstances reflected the input of the people and organisations consulted by Ministers and it is not surprising that these projects were at the lower end of the scale in dollar terms. PM&C elaborated by indicating that the Taskforce considered that the NSW Premier's submission contained many large transport-related

infrastructure projects that were Sydney-centred and other projects about which the Commonwealth had previously expressed reservations. Although discussions were held between Commonwealth and State officials, the Commonwealth did not formally request the NSW Premier to reconsider his submission in light of officials' concerns. Furthermore, the ANAO found that the range and distribution of Federation Fund suitability ratings attributed by the Taskforce to the NSW Premier's proposals were similar to those attributed to proposals from the Victorian Premier.

Other selection issues

Funding smaller proposals

2.91 In a post-Budget interview, the Prime Minister described the Federation Fund as '*a big projects fund*'.³¹ Subsequently, letters from the Prime Minister to the Premiers of the four largest States (ie. NSW, Vic, Qld and WA) indicated that the Commonwealth's intention was for the Federation Fund to be used only to assist major projects of national significance. The four State Premiers were asked to limit their Federation funding suggestions to a few projects that met this criterion. As a preliminary guide, the Prime Minister envisaged that the contribution from the Fund for individual projects would be a minimum of \$25 million, although in many cases it would be greater, and in some considerably greater.

2.92 In light of the Prime Minister's guidance, the average (mean) funding assistance sought for proposals from the NSW, Vic, Qld and WA Premiers was \$82.3 million, \$53.3 million, \$56.2 million and \$20.1 million, respectively. However, the average (mean) funding assistance approved for proposals from the Premiers and Chief Ministers was \$16 million, \$25.7 million, \$43.3 million and \$42.5 million, respectively. The greatest difference was in relation to proposals from the NSW Premier.

2.93 PM&C advised that the \$25 million preliminary guide was intended to limit the number of small projects that might be put forward, but that it was not intended to be a hard and fast rule. The Prime Minister considered that this was a sensible approach.

³¹ The Hon. John Howard MP, *Budget 1997: Prime Minister defends budget strategy*, Interview with Peter Cave and Fran Kelly on AM Radio, 14 May 1997.

2.94 Table 7 illustrates the distribution of all Federation Fund proposals among the four largest States. With reference to the Prime Minister's \$25 million per project guide, projects have been categorised as either high cost (ie. greater than, or equal to, \$25 million) or low cost (ie. less than \$25 million). The table shows that of approved projects in the four largest States, NSW and Vic had a significant proportion of low cost approved proposals (83.9 per cent and 75.5 per cent, respectively) representing 32.7 per cent and 43.7 per cent of Federation funding allocated to those States, respectively. Of those NSW and Vic low cost proposals that were approved, 84 per cent and 46.7 per cent, respectively, were in Coalition electorates in those two States.

Table 7

Distribution of Federation Fund proposals among the four largest States

State	High Cost proposals (≥ \$25m)				Low Cost proposals (< \$25m)			
	Approved		Not approved		Approved		Not approved	
	No.	Value (\$m) ^a	No.	Value (\$m) ^a	No.	Value (\$m) ^a	No.	Value (\$m) ^a
NSW ^b	2.5	143.0	14.0	1599.0	13.0	69.5	20.0	154.0
Vic ^c	2.5	97.0	6.0	713.5	7.7	75.3	5.0	51.4
Qld	2.0	115.0	3.0	207.0	1.0	15.0	3.0	46.0
WA ^c	1.0	80.0	2.0	52.7	1.0	5.0	4.0	23.8
4 State Total	8.0	435.0	25.0	2572.2	22.7	164.8	32.0	275.2

a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

b – Excludes two unsuccessful proposals for which values are not known.

c – Excludes one unsuccessful proposal for which a value is not known.

Source: ANAO analysis of PM&C records.

2.95 The NSW and Vic Premiers (or their officials) were not formally advised of any variation to the suggested minimum funding level for Federation Fund projects. Correspondence from the NSW Premier to the Prime Minister during the 1998 election caretaker period suggests that the NSW Premier's list of preferred Federation Fund proposals would have been different had he been aware earlier that the \$25 million minimum level no longer applied. However, by this time the Federation Fund was fully committed. It is likely that, in the case of NSW at least, the selection process would have been improved had the relevant State Premiers been advised that smaller projects than originally envisaged were being funded and States requested to reconsider their submissions in this light.

2.96 The ANAO also analysed the process through which low cost proposals came to be considered by the Committee of Ministers, Cabinet and/or the Prime Minister. In relation to the four largest States, the approval rate for all proposals (regardless of cost) that did not follow the planned selection process was 54.2 per cent.³² However, the approval rate of low cost proposals that did not follow the planned selection process was 64.5 per cent and in the case of such proposals in NSW, the approval rate was 76.9 per cent. Of the 10 approved low cost proposals approved from NSW that did not follow the planned selection process, nine were approved by the Prime Minister on 27 August 1998 including eight in Coalition electorates.

Partial funding

2.97 Although partial funding allows more projects to be funded and increases the geographic spread of projects, there is an increased risk that the viability of projects could be compromised, particularly in cases where there is no discussion with the proponents who should be able to identify any such consequences. The Government chose to provide less than the full amount of funding sought for just over a quarter of the projects approved.³³

2.98 In relation to three of the partially funded proposals, the Taskforce and the Committee of Ministers identified the components of the proposals that the Commonwealth would fund and approved their funding accordingly. However, in relation to the remaining eight proposals, the Taskforce did not provide advice to the Government on the potential for or feasibility of their partial funding and the Government did not indicate what components of the proposals in particular the Commonwealth would fund.

2.99 The ANAO considers that an explanation of the reasons for offering lesser financial assistance than that sought, would have aided the decision-making of those responsible for the ongoing administration and delivery of Federation Fund projects.

³² All proposals considered by the Government from the four largest States that did not follow the planned selection process came from unsolicited sources.

³³ ie. 11 projects (or 27.5 per cent of the total number of approved projects) valued at \$131.4 million.

Total cost of Federation Fund projects

2.100 As the last Committee of Ministers meeting was held, \$178.9 million of the Federation Fund remained uncommitted. The Committee made 16.7 recommendations valued at \$159.8 million, leaving \$19.1 million uncommitted. On 27 August 1998, the Prime Minister approved all the final recommendations of the Committee of Ministers and another four projects valued at \$25.9 million. On 1 September 1998, the full Ministry noted that approved Federation Fund projects exceeded the \$1 billion appropriated to the Federation Fund by \$6.8 million and that additional funds would be required.

2.101 To manage this situation, when the Federation Fund was distributed to the administering departments to manage in March 1999, PM&C transferred to the Department of Finance and Administration (Finance) \$6.8 million less than the \$15.8 million approved from the Federation Fund for Finance's project, the Refurbishment of No.4 Treasury Place. PM&C proposed that Finance seek an appropriation to its share of the Federation Fund for the shortfall. Finance, however, decided not to seek an extra appropriation and informed PM&C in October 1999 that sufficient funds were available from Finance's existing Capital Works Programme to cover the shortfall. The framework for Finance's capital appropriations meant that Finance was able to legally apply them to its Federation Fund project.

2.102 Finance indicated that it has always made it clear that the refurbishment was only partly funded by the Federation Fund and the Prime Minister on the opening of the refurbished building recently reiterated this point. Nevertheless, there was no reference made to this position in Finance's key accountability documents - its annual reports and Portfolio Budget Statements - that would explain the funding allocation for the No.4 Treasury Place project for the benefit of Parliament. Finance indicated that the project was not completed until May 2001. Accordingly, Finance anticipates including details of the project in Finance's 2000-2001 Annual Report, for the benefit of all users of the Annual Report, including Parliament.

Projects no longer proceeding

2.103 Projects that do not proceed after being selected can point to inadequacies in the selection process. Of the 40 Federation Fund projects, two projects and a component of another (Belgenny Farm Wool Centre (\$6 million) and Brisbane Light Rail (Briztram) (\$65 million) and part of the Federation Parks Initiative project (\$5 million)) are no longer proceeding.

2.104 The Belgenny Farm Wool Centre project ceased in June 2000 due to the lack of financial support from outside the Commonwealth originally envisaged. The Brisbane Light Rail project also ceased in June 2000 at the request of the project's proponent, the Qld Government. The Department of Defence has recently decided to retain ownership and possession of the Fort Queenscliffe site that was part of Federation Parks Initiative (Vic and SA Defence Lands) project. Only in the case of the Belgenny Farm Wool Centre project might a more rigorous assessment have alerted decision-makers to pertinent project risks—in this case, the risk associated with unconfirmed financial support from non-Commonwealth sources.

2.105 No Federation funding was ever paid to these projects. In May 2000, the Government transferred the funding originally approved for Belgenny Farm Wool Centre to the Interim Sydney Harbour Federation Trust to fund the latter's ongoing management. In April 2001, the Government announced that the funding originally approved for the Brisbane Light Rail project would be transferred to three projects: widening the Bruce Highway at Caboolture (\$40 million); a Comprehensive Cancer Research Centre in Brisbane (\$20 million); and a heritage light rail system at Beaudesert (\$5 million). The Government has reallocated \$5 million formerly allocated to the Fort Queenscliffe site but the decisions have yet to be announced. The ANAO's analysis of approved projects contained in this chapter does not take into account the above variations to the list of approved projects.

2.106 The ongoing management of the remaining 37.7 Federation Fund projects is discussed in Chapter 3.

Conclusion

2.107 The ANAO found that the majority of Federation Fund proposals approved: were rated by the Taskforce as MEDIUM or higher suitability for Federation Funding; were from unsolicited sources; and did not follow the planned selection process (particularly the initial assessment stage). The Coalition held some 64 per cent of the electorates in the House of Representatives and received a little over half the number of approved projects representing a little under 40 per cent of available funding. Labor held 32 per cent of electorates and received some 44 per cent of the number of approved projects representing some 60 per cent of available funding.

2.108 NSW had the greatest number of projects of any State (15.5 projects) of which 12 were from unsolicited sources and 12 did not follow the planned selection process. Thirteen of the approved projects in NSW cost less than \$25 million (the minimum suggested to the Premiers of the four largest States to guide the preparation of their proposals) of which 11 were in Coalition electorates. The success rate of NSW projects in Labor electorates (16.7 per cent) is significantly lower, in a statistical sense, than the success rate for Labor electorates nationally (42.5 per cent).

2.109 None of the ACT Chief Minister's proposals were approved (all were rated LOW by the Taskforce). Four of the five ACT approved proposals did not follow the planned selection process.

Announcement of selection results

2.110 As a matter of good practice, successful and unsuccessful proponents should be advised as soon as practicable after a decision on their proposal has been made or available funds are fully committed. This approach enables proponents to know the outcome of their proposals as soon as possible so they can start to implement their projects or pursue alternative sources of funding, if necessary. Given the policy objective of having projects well advanced by the Centenary of Federation and the long lead times involved in many of the projects, prompt announcements could be expected to be especially important in the context of this particular programme.

Announcements of approved projects

2.111 The announcement of approved projects can be a sensitive issue, particularly in the lead up to a Commonwealth or State election. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities. Nevertheless, from a programme administration perspective and, as a matter of good practice, approved and unsuccessful proponents should be advised without undue delay after a decision on their proposal has been made. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative courses, if necessary. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes. It would seem preferable for all decisions, when taken, to be announced together, or within a relatively short period of time, to avoid uncertainty and unnecessary speculation.

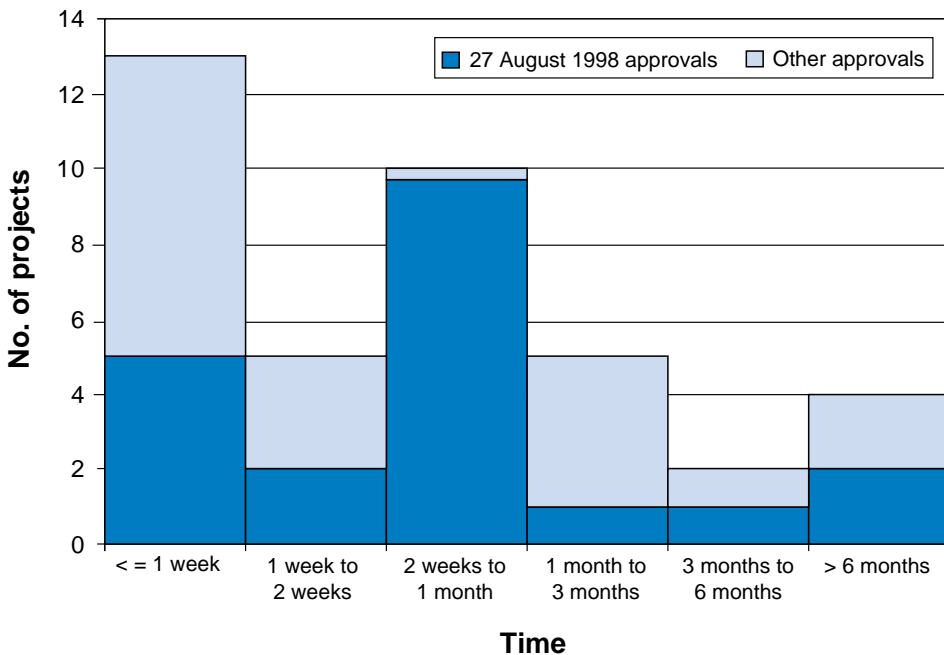
2.112 With two exceptions, announcements of approved Federation Fund major projects were made progressively over a 19-month period

from August 1997 to March 1999.³⁴ Just over 50 per cent (21.3 out of 40) of approved projects were announced in September 1998 during the 1998 election caretaker period. Appendix 3 illustrates a chronology of each approved project through key stages in the assessment, approval and announcement process.

Elapsed time between decisions and announcements

2.113 Figure 2 illustrates that the elapsed time between the approval of projects and their announcement varied widely. The time between approvals and announcements ranged from the same day to two years nine months (for one part of one project with the next greatest time period being eight months), with a mean of some 50 days and median of 24 days. Just over 70 per cent of projects were announced less than one month after approval. About half of the approved projects (20.7 out of 40) were approved four days before the start of the caretaker period in the lead up to the 1998 Federal election.

Figure 2
Time between approvals and announcements^a



a – Excludes the NMA project announced at the time the Federation Fund programme was announced.
Source: ANAO analysis of PM&C records.

³⁴ The exceptions are the NMA project announced in May 1997 when the Federation Fund programme was announced and the Torrens Parade Ground in Adelaide (part of the Federation Parks Initiative). There is some uncertainty over when the latter project was announced, however it appears to have been noted as a Federation Fund project in October or November 2000.

Announcements during caretaker period

2.114 By convention, the Government assumes a 'caretaker' role in the period between the dissolution of the House of Representatives and the time when it is clear which political party will have a majority in the House. During this period, the Government ensures that decisions are not taken which would bind an incoming government and limit its freedom of action. In the case of the 1998 election, the caretaker period commenced at noon 31 August and expired on 12 October.

2.115 As noted in Audit Report No.30 1999–2000 *Examination of the Federation Cultural and Heritage Projects Programme*, a reference in the PM&C 1986–87 Annual Report comments on the caretaker convention including the following:

The basic conventions are directed at the taking of decisions, and not their announcement. Accordingly, the conventions are not infringed where decisions taken before the caretaker period are announced during the caretaker period. However it is desirable, if the decisions concern significant initiatives, that they be announced in advance of the caretaker period in order to avoid controversy.

2.116 In relation to the FCHP programme, PM&C considered that the grants would amount to a 'significant initiative' and may attract controversy, including questions about why the announcements were not made before entering the caretaker period and whether decisions were in fact made before the caretaker period. These comments could also apply to the Federation Fund Major Projects programme as it is over 10 times the value of the FCHP programme.

2.117 All decisions were taken before the start of the caretaker period either by Cabinet or the Prime Minister and so did not breach the caretaker convention.

2.118 Announcement of selected projects during the lead up to an election can be particularly sensitive. Table 8 shows the timing of project announcements by particular political parties. It shows that a greater proportion of approved projects in Labor electorates was announced before the 1998 election caretaker period and after the election than for Coalition electorates. However, an even greater proportion of approved projects in Coalition electorates was announced during the 1998 election caretaker period than for Labor electorates. Nearly, two-thirds of all Federation Fund major projects announced during the caretaker period were in Coalition electorates. Of the 14 projects in Coalition electorates announced during the caretaker period: 10.7 projects were approved four days before the start of the caretaker period; and 4.2 projects were in marginal electorates.

Table 8**Timing of project announcements**

Political party	No. of approved proposals announced ...			Percentage of approved proposals announced...		
	before caretaker period	during caretaker period	after election	before caretaker period	during caretaker period	after election
Coalition	6.2 (40.3%)	14.0 (65.7%)	0.3 (9.1%)	30.1	68.0	1.5
Labor	8.2 (53.2%)	7.3 (34.3%)	2.0 (60.6%)	46.9	41.7	11.4
Independent	1.0 (6.5%)	0.0 (0.0%)	0.0 (0.0%)	100.0	0.0	0.0
Multi-electorate	0.0 (0.0%)	0.0 (0.0%)	1.0 (30.3%)	0.0	0.0	100.0
AUST	15.4 (100.0%)	21.3 (100.0%)	3.3 (100.0%)	38.5%	53.3%	8.3%

Source: ANAO analysis of PM&C records.

2.119 Of the 21.3 projects announced during the caretaker period, 6.7 were approved more than one month earlier. Of these 6.7 projects, half were in Coalition electorates and half were in Labor electorates.

Announcements and State elections

2.120 The announcement of projects can also be a sensitive issue in the lead up to a state government election. During the Federation Fund assessment process from May 1997 to August 1998, five States and Territories (NT, SA, ACT, Tas and Qld) held State/Territory elections in their own jurisdictions. An analysis of approvals and announcements relative to state government elections showed some NT and Qld projects were approved and announced after state/territory elections were called, but before elections were held, in those States/Territories.

2.121 In the case of NT, the Alice Springs to Darwin Railway project was approved and announced in August 1997, 10 days after the announcement of an upcoming NT territory election. This project was the first Federation Fund project to be approved and announced after the NMA project was announced in the 1997–98 Budget. In the case of Qld, the Committee of Ministers met in May 1998 to consider only Qld proposals two days after the announcement of the Qld State election. This was the only one of nine Committee of Ministers meetings at which the Committee did not consider proposals from all States and Territories (whose Federation Fund allocations were not already fully committed). The Committee subsequently recommended two Qld proposals (in addition to one already announced over two months earlier). These were approved and announced in the lead up to the Qld State election.

Announcement of unsuccessful proposals

2.122 Over 90 per cent of approved projects had been announced before the 1998 Federal election and their proponents were notified in writing in mid-December 1998. However, proponents of unsuccessful proposals were not notified that their proposals were unsuccessful until early-February 1999, more than five months after the last of the selected proposals had been approved. PM&C indicated that the timing of written advice to unsuccessful proponents was determined by the Government. However, PM&C assumes that the delay was a result of a combination of factors including the October 1998 election, higher priorities being given to other tasks during the settling in period for the Government following the election and the Christmas/New Year break. Although it is understandable that factors such as these would influence the timing of written advice, it would have been better if all unsuccessful proponents had been notified once all Federation Funds had been committed.

Conclusion

2.123 Elapsed time varied widely between project approvals and their announcements (ranging from the same day to two years nine months, with a mean of some 50 days and a median of 24 days). Just over 70 per cent of projects were announced less than one month after approval. About half of the approved projects were approved four days before the start of the caretaker period in the lead up to the 1998 Federal election. As Cabinet, or the Prime Minister, approved all projects before the announcement of 1998 Federal election, the announcement of just over 50 per cent of approved projects in the caretaker period did not breach the caretaker convention.

2.124 A greater proportion of approved projects in Labor electorates was announced before the 1998 election caretaker period and after the election than for Coalition electorates. Of the 21.3 projects announced during the caretaker period, 14 (65 per cent) were in Coalition electorates including: 10.7 projects that were approved four days before the start of the caretaker period; and 4.2 projects that were in marginal electorates.

2.125 Proponents of unsuccessful proposals were not notified that their proposals were unsuccessful until early-February 1999—more than five months after the last of the selected proposals had been approved.

2.126 It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities. Nevertheless, from a programme administration perspective and, as a matter of good practice, it would seem preferable for all decisions, when taken, to be announced together, or within a relatively short period of

time, to avoid uncertainty and unnecessary speculation. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative courses, if necessary. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes.

Improvement opportunities

2.127 Given that the Federation Fund programme is unique and programme funds have been fully committed, this report does not make any recommendations. However, there are a number of administrative steps that could be taken to enhance the achievement of programme outcomes for any future funding assistance programmes of a similar nature to the Federation Fund. For example, the quality of departmental officials' advice to ministers would be improved through:

- consideration of planning issues for all stages of the programme;
- the development of programme guidelines for external users that assists them to better prepare their applications or proposals;
- the provision of structured guidance to assist proposal assessors to assess proposals more consistently;
- the implementation of a quality assurance process for the departmental assessment process;
- well-structured and documented consultations within the Commonwealth, States/Territories and/or the private sector, as appropriate, during the departmental assessment process; and
- consideration of where whole-of-programme reporting responsibilities lie should ongoing project management be devolved to others.

2.128 The selection of projects by ministers in funding assistance programmes is a sensitive issue that often raises questions as to whether the selection process was sufficiently transparent and whether party-political interests in any way unduly influenced the decisions made. As a consequence, attention can be drawn away from assessing the programme's intended outcomes to speculation as to why some proponents were favoured over others. The effort that ministers and officials subsequently exert to explain the selection decisions made represents an opportunity cost that could be minimised with an appropriately documented selection process.

2.129 A transparent and systematic appraisal process assists in informing decisions and enhances confidence in the selection process and programme outcomes for both programme stakeholders and the public. This can assist the government in promoting the benefits of its programme and, at the same time, demonstrating its commitment to public accountability and providing the necessary assurance to the various stakeholders involved that public funds have both spent for the approved purposes and are achieving the best possible outcomes. This report raises a number of matters for consideration by the Government and Parliament in cases where the Government is appraising proposals to expend public monies against pre-determined objectives and criteria.

3. Project and Programme Management

This chapter examines the ongoing administration of selected Federation Fund projects and the programme overall. Project administration is analysed using the four stages of project management involving: planning at the departmental and project-specific level; establishment of appropriate funding agreements; ongoing monitoring of the performance of funding recipients; and evaluation of project performance on completion. The performance of the Federation Fund programme, in terms of its objectives, is also examined, as is the extent to which the programme's performance has been reported to the Parliament.

Introduction

3.1 Once the 40 Federation Fund major projects were selected for funding, PM&C transferred the responsibility for the ongoing management of each project to one of ten Commonwealth departments/agencies ('administering departments'). A full list of major projects and administering departments is at Appendix 1.

3.2 The ANAO examined a selection of 20 projects, valued collectively at \$441 million (48 per cent of the value of all Federation Fund major projects), from six administering departments to determine the extent to which their ongoing management, and the management of the Federation Fund programme overall, met better practice. The administering departments examined were the:

- Department of Communications Information Technology and the Arts (DCITA);
- Department of Environment and Heritage (DEH);
- Department of Agriculture Fisheries and Forestry - Australia (AFFA);
- Department of Transport and Regional Services (DTRS);
- Department of Industry Science and Resources (ISR); and
- Australian War Memorial (AWM).

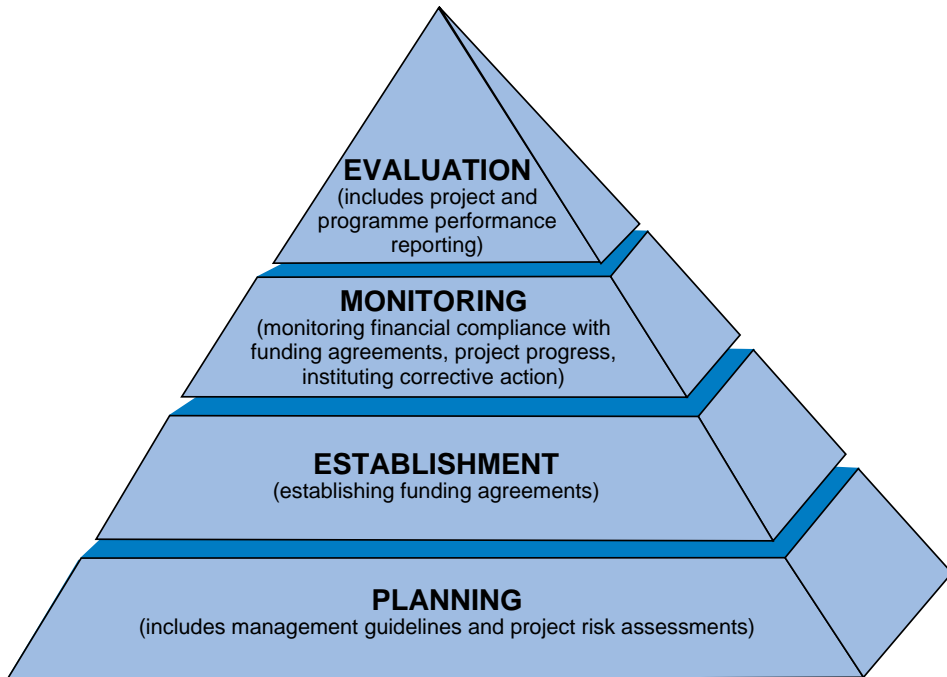
3.3 The ANAO also examined the ongoing management by DCITA and DEH of a small selection of projects selected under the FCHP programme. All the projects examined, with the exception of the ANZAC Hall project, required administering departments to oversee the delivery of the project by a third party recipient of Commonwealth funds. The management of the construction of ANZAC Hall lay directly with the AWM.

3.4 The primary source of audit criteria for assessing the ongoing management of selected projects is the ANAO's *Administration of Grants Better Practice Guide*, with particular regard to the four key stages of the management cycle—planning, establishment, monitoring and evaluation. The success of each of these stages is generally contingent on the quality of the preceding stage. Sound planning provides the foundation for the establishment stage, which in turn sets the parameters for successful monitoring and evaluation of the programme. Figure 3 illustrates this relationship.

Transfer to administering departments

3.5 A distinctive feature of the Federation Fund Major Projects programme is the separation of the project assessment/selection and ongoing management responsibilities. The ANAO considers that certain risks arise out of this separation that, if not well managed, could adversely impact on the success of the programme. PM&C held three meetings with representatives of the administering departments in December 1998, March 1999 and October 1999 in relation to the transfer of the ongoing management of Federation Fund major projects. Minutes taken by attendees indicate that the discussions primarily related to:

- notifying administering departments that they were responsible for developing and negotiating funding agreements;
- the timing of federation fund payments;
- that payments should be made only on evidence of progress;
- the six-monthly reporting arrangements from administering departments to PM&C;
- arrangements for acknowledging Federation Fund contributions to projects;
- the importance of adhering to heritage legislation and applying the National Code of Practice for the Construction Industry (NCPCI) to the projects; and
- the importance of projects keeping to agreed progress milestones.

Figure 3**The four stages of project management**

3.6 The ANAO considers there were some shortcomings with respect to PM&C's transfer of projects to administering departments. These are:

- a lack of clarity of the role of administering departments concerning their responsibility for maximising the achievement of Federation Fund programme objectives as opposed to merely acting as a source of funding;
- that administering departments were unaware of the information (including the Taskforce's assessments) on which decision-makers selected the projects and based their decisions, thus making it unclear to what extent administering departments could manoeuvre during funding agreement negotiations with the recipients; and
- although PM&C specified project information to be collected, it did not specify the need to collect programme outcome-related performance information from each project consistently across all administering departments.

3.7 Furthermore, after the transfer of projects to administering departments, there is no evidence of continuing programme-wide coordination of the Federation Fund programme other than *ad hoc* informal consultations between PM&C and administering departments.

3.8 PM&C indicated that the *Cabinet Handbook* and *Cabinet Notetakers Guide* make it clear that the convention of Cabinet confidentiality requires notetakers not to reveal information about the views of individual ministers or other aspects of discussion in the Cabinet Room. PM&C considers that for them to tell agencies why ministers made particular decisions or what factors they took into account may well breach that convention. PM&C did not give the administering departments the *Detailed Assessments* on selected projects prepared by the Taskforce and considered by the Committee of Ministers. PM&C considered them unnecessary and noted that no administering department has asked for them, although PM&C would have made them available on request. (Similar assessments prepared in relation to other funding assistance programmes would normally be readily available to those responsible for the ongoing management of selected projects).

3.9 PM&C advised that administering departments were responsible for the administration of projects transferred to them and their duty was to manage the projects as efficiently and effectively as possible so that they would be well advanced, if not complete, in 2001. PM&C also indicated that it is not aware of any line agency having difficulty assessing the amount of room they had to manoeuvre in funding agreement negotiations. Further, the fact that the Taskforce was disbanded before the transfer meetings meant that the broad experience and specific project risks that were known to the Taskforce during the selection process were no longer available. Accordingly, it was not possible, at the time of the transfer, for PM&C to advise line agencies of the nature of the risks inherent in particular projects, particularly where the funding assistance was less than the amount sought. The ANAO found that by not distributing the Taskforce's assessments, administering departments approached their Federation Fund projects from a low knowledge base and it took time and effort to determine the scope and focus of their projects. Had the Taskforce assessments or other assessment or selection documentation been provided to the administering departments then the risks/issues associated with particular projects could have been canvassed with the administering departments concerned.

Project planning and establishment

3.10 The fundamental aim of the planning stage is to ensure that the project will achieve its operational objectives. Planning sets out the necessary steps and processes identifying what resources are needed and how they will be used. It also determines relevant milestones and targets and establishes a mechanism to enable the project manager to assess and

report the extent to which individual projects and the programme overall are meeting their objectives. Planning helps ensure consistency between strategic and operational objectives, performance measures and evaluation criteria.

Identification and treatment of risks

Departmental project management guidelines

3.11 Clear, consistent and well-documented guidelines are an important component of risk management in an effective financial assistance programme. A single reference source for administrative procedures, including monitoring requirements, evaluation strategies and standard forms aids consistent and efficient administration across departments managing multiple projects. Only two departments, ISR and DCITA, developed comprehensive guidelines specific to the management of Federation Fund projects although neither of the departments had the guidelines endorsed by their departments' senior management at the time of the audit. It would have been preferable had they been endorsed, given the guidelines were implemented with varying degrees of success across the projects examined.

3.12 In the other administering departments, compensating factors partially offset the risk represented by the absence of formal guidelines. DEH was directly involved with DCITA in the development and implementation of the FCHP programme and all Federation Fund projects for which DEH is responsible, with the exception of the Sydney Harbour Federation Trust (SHFT), were managed within the one area. DTRS applied previously established programme delivery mechanisms for the funding of land transport infrastructure as specified in the *Australian Land Transport Development Act 1988*. AFFA and AWM were each responsible for managing a single project. Nevertheless, the ANAO considers that, for those departments managing multiple projects, formal guidelines, endorsed by senior management, would aid new project managers to quickly gain an accurate understanding of Federation Fund administration arrangements and contribute to the consistent management of projects over the two to three year implementation period.

Project risk assessment

3.13 Adoption of a risk management approach aimed primarily at assessing the capability of the recipient to deliver the agreed project on time and within budget is fundamental to planning and establishing an individual funding arrangement. A well-drafted funding agreement incorporating appropriate risk treatments is the foundation for effective monitoring and ongoing management of a project. DEH conducted and

documented simple structured risk assessments for each of its major and FCHP projects prior to negotiating and establishing funding agreements. DCITA did the same for its FCHP projects (see Case Study 1). Treatments developed to address the identified risks were then incorporated into the terms and conditions of the funding agreements.

Case Study 1

Risk planning by DCITA and DEH

After the selection of projects under the FCHP programme, DCITA, together with DEH, developed a simple but effective tool called a Contractual Issues Paper for undertaking risk planning for each of the FCHP projects it administered. The Contractual Issues Papers were short, relatively simple and not onerous to produce. They were an efficient, succinct and reasonably accurate encapsulation of project risks and thus provided a valuable tool and reference document for managing project risks peculiar to each project. DEH also adopted the Contractual Issues Paper approach to its FCHP projects and extended its operation to the Federation Fund major projects DEH administered.

The Contractual Issues Papers typically identified the following risks:

- the lack of capacity of the proponent to successfully manage the project;
- business plans provided by proponents that were based on unrealisable or unsubstantiated assumptions;
- threats to the viability of projects due to partial funding requiring redesign and scaling down of projects;
- failure to comply with heritage and other statutory requirements; and
- the lack of appropriate expertise of the proponent in conservation, heritage and the management of museum collections.

A common treatment for these risks was the incorporation of tailored planning stages in the project milestones defined in the funding agreement. The planning stage generally required that the proponent demonstrate compliance with statutory and heritage requirements, the viability of the project, the capacity of the proponent to manage the project and any other risks identified in the Contractual Issues Paper. The project would not proceed beyond the planning stage unless the recipient satisfied the administering department, by way of the planning stage report, that all risks had been dealt with adequately.

3.14 The Federation Fund projects are generally complex and it was, in some cases, difficult to thoroughly assess all the risks associated with the projects before funding agreements were implemented. DCITA and DEH generally managed this risk by incorporating a discrete planning stage in the project milestones specified in their projects' funding agreements. The discrete planning stage better allowed administering departments to establish the viability of projects (in terms of the project budget being sufficient for the scope of the project), ensure compliance with heritage and conservation requirements, and assess the capability of the recipient, prior to the project proceeding further.

3.15 With the exception of AWM, other administering departments did not conduct formal risk assessments at a project level but there were indications of *ad hoc* identification and treatment of risks as projects progressed. The ANAO considers that formalised, documented risk assessments prepared before funding agreements were negotiated would have provided a level of comfort that all pertinent risks had been taken into account from the start.

3.16 The nature of the recipient is an important aspect in assessing the risks of particular projects. For example, a State government as a funding recipient poses a lesser financial risk than, say, a small community group, but there are other risks that should also be considered and managed. One such risk is that the scope of the project may change over time and so impact on the project's achievement of value for money. Another risk is that the project may become delayed, adversely impacting on the achievement of the programme's objectives. The ANAO found a number of instances where administering departments considered projects as inherently low risk because the recipients were State governments.

3.17 Furthermore, in the case of projects with State government recipients, some administering departments indicated that they believed that they had little, if any, responsibility for project management but were only responsible for providing Commonwealth funds and ensuring the recipients' compliance with the Commonwealth's legal and policy obligations. Consequently, this resulted in funding agreements that poorly specified the project, project milestones, the roles and responsibilities of parties, and reporting requirements that did not greatly assist the management of the project by the administering department. An example of this is the National Wine Centre project (AFFA). AFFA considered that the Government did not require the department to take on the responsibility for the day-to-day management of the construction of the National Wine Centre. AFFA considers that its primary task was to ensure that funds were expended for the purpose for which they were appropriated (ie. the building of the National Wine Centre) and to monitor progress and other specific aspects of the project required by the Commonwealth. AFFA has stated that it believes that its funding agreement reflects and adequately provides for that role. The ANAO notes that, compared to many other funding agreements, the agreement for the Wine Centre was not as specific in terms of deliverables or milestones.

Establishment of funding agreements

3.18 A well-drafted funding agreement protects the Commonwealth's interests, clearly outlines the conditions of the grant, defines project deliverables, schedules payments (according to progress), and specifies progress reporting requirements and acquittal procedures. With the exception of the Tamworth Regional Entertainment Centre, all projects examined during the audit had funding agreements in place, developed with the input of legal advisers, prior to the payment of any funds.

3.19 The Tamworth Regional Entertainment Centre project was substantially completed in September 1998, before the project was officially transferred to DCITA to manage in December 1998. In January 1999, DCITA decided that a formal funding agreement was not necessary because the project was completed and informed its Minister in April 1999 of this prior to paying the full grant to the recipient. Although the recipient subsequently provided an adequate acquittal and final report, the ANAO considers that the Commonwealth's interests would have been better protected had the payment of the funds been made explicitly conditional on the recipient meeting the specified reporting requirements to the Commonwealth's satisfaction.

3.20 Notwithstanding the limitations placed on the ability of departments to negotiate better practice funding agreements due to shortcomings with project transfer, some departments were able to conform to better practice in funding agreement development. DCITA and DEH were able to develop better practice funding agreements as they were accustomed to administering grants as part of their core business and had experience with the FCHP programme. The areas of the other administering departments managing Federation Fund projects were not so accustomed to administering grants as part of their core business.

3.21 In the absence of any central coordination of the process by PM&C of establishing funding agreements, there was some *ad hoc* communication between administering departments including the sharing of draft agreements. This worked better in some cases than in others. For example, DTRS and ISR based their standard funding agreement on copies of a standard funding agreement format obtained from DCITA, resulting in reasonably robust documents that, in general, conformed with better practice. AFFA, on the other hand, based its National Wine Centre funding agreement on the Grahame Park Stadium funding agreement developed earlier and independently by ISR. As noted earlier, although developed in consultation with other agencies and AFFA's corporate legal counsel, the resultant funding agreement developed by AFFA did not support better practice in project management.

3.22 During the audit, some administering departments indicated that they felt they were under pressure to finalise agreements and commence the flow of funding. In at least one case, the Jervoise Bay Infrastructure Enhancement (ISR), the recipient negotiated a funding schedule with the Commonwealth prior to the transfer of the project from PM&C to ISR and the negotiation of the terms and conditions of funding. This raised the expectations of the recipient that funding would commence quickly. However, protracted negotiations between ISR and the WA Government ensued. Contrary to ISR's initial negotiating position, the final funding agreement did not facilitate effective ongoing project management and weakened ISR's ability to influence outcomes in terms of the projects' objectives and the projects' contribution to overall programme objectives. As a result of a significant scope change to the project, initiated by the recipient, ISR is currently renegotiating the Jervoise Bay Infrastructure Enhancement funding agreement to strengthen ISR's management role. AFFA was also under pressure to complete the funding agreement for the National Wine Centre and make the payments as soon as possible. The purchase of a CSIRO property by the recipient (the South Australian Government), as mentioned in Chapter 2, was likely to have been a contributing factor.

3.23 The ANAO Better Practice Guide *Cash Management in the Commonwealth Public Sector* (1999) indicates that large amounts of Commonwealth funding should not be paid in advance to recipients because of the risk of non-performance of obligations, or non-compliance with the terms of the funding agreement.³⁵ While most departments stipulated and imposed reasonable reporting requirements to ensure payment commensurate with progress, there were some exceptions. A large amount (\$27 million) was paid on the execution of the Jervoise Bay Infrastructure Enhancement agreement (ISR) and the entire \$12 million of funding assistance was paid on the execution of the National Wine Centre agreement (AFFA). ISR indicated that the first payment for the Jervoise Bay Infrastructure Enhancement project represented only one-third of the Federation Fund grant (and less than 13 per cent of the then estimated total project cost of \$210 million) and that it was usual for payments of this nature to be made in capital-intensive construction projects. As noted earlier, the funding schedule had also been negotiated prior to the transfer of the project from PM&C to ISR. AFFA indicated that the risks with the National Wine Centre project were assessed as minute prior to the payment, that the project was substantially advanced at the time of the payment, and that the payment only represented one third of the total construction cost. In neither case was there evidence of a documented assessment of the risks or benefits of payment in advance.

³⁵ ANAO (1999), *Cash Management in the Commonwealth Public Sector*, Better Practice Guide, p. 10.

3.24 The ANAO considers that the general quality of the Federation Fund funding agreements would have been improved had their establishment been coordinated centrally. This would have facilitated better sharing of experience and expertise across administering departments. Better practice funding agreements, tailored for the individual circumstances and risks of each project, provide a sound basis for the effective monitoring of projects and the programme as a whole.

Ongoing management of projects

Monitoring

3.25 Effective monitoring is an essential element of any programme of financial assistance. At one level it provides assurance that all conditions attached to Commonwealth funding are being complied with, while at another it assesses the effectiveness of individual projects and provides a basis for refining the overall programme where the programme continues. Even if the programme is not continuing, funding organisations remain publicly accountable to the Government and Parliament for the value for money achieved, so it is essential that adequate monitoring arrangements are clearly defined, effective and appropriately resourced. The extent of the monitoring arrangements needs to be tailored to the size of the programme and specific risks presented by individual projects and recipients.

3.26 A wide variation in the extent and consistency of project monitoring was observed across, and sometimes within, the departments examined. Better practice in the rigour of project monitoring generally reflected the quality of departmental planning and the resultant funding agreements.

3.27 In general, DCITA and DEH implemented sound monitoring regimes based on their better practice funding agreements but there were some exceptions. DCITA monitored the Australian Centre for the Moving Image (Cinemedia) project well, identifying and overcoming a series of difficult design, industrial and legal issues while advancing the project and protecting the Commonwealth's investment. Likewise, DEH implemented sound monitoring arrangements in the St. Andrews Cathedral restoration project that involved the effective outsourcing of project management to the NSW Heritage Office. In this project, appropriate reporting requirements were imposed on the NSW Heritage Office. On the other hand, DCITA's monitoring of the Australian Centre for Christianity and Culture had some significant shortcomings (see Case

Study 2) and DEH's monitoring of the Federation Family project was somewhat inconsistent. The Federation Family is a composite FCHP project made up of nine separate projects managed by the National Trust. In the management of this project, DEH made early unquestioned concessions with regard to the project's reporting requirements that, in effect, condoned underlying performance problems. This made the eventual solution of these problems by DEH more difficult than it would otherwise have been.

Payments in advance of project milestones

3.28 The ANAO found no evidence that Federation funds had been paid for any reason other than for advancing projects. However, in some cases, payments were made to recipients without commensurate progress against milestones. In these cases, departments did not appear to assess progress reports adequately against agreement requirements before making payments. In some projects examined it was the submission of a report, rather than the departments assessment and acceptance of the report, that appeared to trigger payment. Projects where payments were made in the absence of evidence of a thorough assessment against compliance with reporting conditions or evidence of an assessment against progress include Grahame Park Stadium and the National Marine Science Centre (ISR) and the Australian Centre for Christianity and Culture (DCITA) (see Case Study 2).

Administrative costs

3.29 The cost of managing the Federation Fund Major Projects and FCHP programmes has been absorbed within administering departments existing resources (with the exception of the National Museum of Australia Project (\$147 million)). In practice departments have taken on the not inconsiderable task of establishing funding agreements and monitoring project progress on \$829 million of Federation Fund projects, including \$759 million for major projects and \$70 million for FCHP projects. As a general point, DTRS noted that a requirement to absorb project administration costs and a consequent reliance on existing departmental expertise generates risks to program performance by the administering departments.

Case Study 2

Australian Centre for Christianity and Culture (managed by DCITA)

The Department of Communications, Information Technology and the Arts (DCITA) is responsible for administering a \$5 million project to design and construct Stage 1 of the Australian Centre for Christianity and Culture in Canberra. The total estimated cost of Stage 1 was \$6.1 million, with the difference to be provided from yet-to-be-confirmed sources other than the Commonwealth. The funding agreement contains an approved budget schedule that specifies the amount of Federation Funds and funds from other sources budgeted for each cost item. The Cost item *Stages 1-3 design* had an approved budget of \$615 000 of which \$300 000 was to be provided from Federation funds.

In August 1999, DCITA paid the first instalment of \$2 million on the execution of the funding agreement. The first quarterly report, provided by the recipient in December 1999, indicated among other things that over \$500 000 was expended in total against the item *Stages 1-3 design*. DCITA interpreted this to be all attributed to Federation Fund expenditure. In the context of a subsequent variation to the funding agreement, DCITA indicated to the recipient that it would accept minor variations in the allocation of Federation Fund monies across budget items so long as the achievement of the project's milestones and objectives was not compromised. At that time, the Department did not clarify the attribution of expenditure or require the recipient to submit a revised acquittal of funds. The apparent overspend was not addressed in subsequent Progress Reports which continued to show a substantial total expenditure against *Stages 1-3 design*, which eventually exceeded the approved Federation Fund contribution by \$340 000. In addition, reports indicated that, by May 2000, the project was behind schedule by over seven months in terms of letting tenders for construction.

In July 2000, the recipient provided the third quarterly report. Total expenditure on *Stages 1-3 design* now exceeded \$675 000 (or \$375 000 over the approved Federation Fund contribution). The funding agreement provided for a payment of \$2.9 million on acceptance of this report by the department. DCITA accepted the report in August 2000 and approved the payment on the basis that construction would commence shortly and funds expended quickly. Tenders for construction were then expected to be let in August 2000.

At the time the \$2.9 million payment was made in July 2000:

- the recipient was holding over \$500 000 of unexpended Federation Funds;
- apparent overspends against the Federation Fund contribution for *Stages 1-3 design* of \$375 000 had been accepted without considering the impact of the overspend on the available Federation Fund funding for other items of the project; and
- the non-Commonwealth sources of funding for the project had not been confirmed.

Since January 2001, DCITA's project management has improved: the format, accuracy and clarity of reporting by the recipient; the attribution of Federation Fund moneys to project expenditure; and the clarity of the project's construction schedule. A variation to the funding agreement has been prepared to consolidate these measures and the amount of funds available from non-Commonwealth sources has now been confirmed as being sufficient. After re-attribution of Federation Fund expenditure to agreed levels for cost items, reports from the recipient indicated that they are holding \$3.6 million, including interest, of unexpended Federation Fund moneys.

The Visitors Centre component of the project has been completed and tenders have been let for the construction of the Chapel. Construction commenced in June 2001 with its completion date now estimated as March 2002.

continued next page

ANAO Comment

The ANAO considers that DCITA's earlier management of this project was inadequate. Despite the sound funding agreement, DCITA did not evaluate the risk to the project of variations to the approved expenditure table and has paid \$3.6 million in advance of progress against milestones. The Commonwealth was consequently exposed to unnecessary risk but DCITA's subsequent management actions have addressed its earlier management shortcomings.

DCITA also advised the ANAO that DCITA is extending its general funding assistance program guidelines and Federation Fund-specific guidelines to include particular guidance for project managers regarding the types of management problems experienced in the Australian Centre for Christianity and Culture project. DCITA anticipates that this will assist in minimising the risk of such problems occurring on other projects in the future.

Projects progress and reporting

3.30 One of the key Federation Fund programme objectives was that projects should be '*well advanced, but not necessarily complete by 2001*'. The provisional funding schedule set by Ministers in April 1999 estimated that funding for 26 of the 40 major projects valued at \$366 million would be fully disbursed by June 2001. However, the latest Federation Fund progress information (as at June 2001) indicated that only 14 major Federation Fund projects valued at \$211 million were completed by June 2001. Nevertheless, another 11 major Federation Fund projects valued at \$143 million are scheduled for completion in the second half of the Centenary of Federation year. Administering departments now expect all projects to be completed by the end of 2003.

3.31 While recognising the provisional nature of the expenditure schedule approved by Ministers in April 1999, it indicated that 75.1 per cent of Federation Funding was to be disbursed by June 2001. However, only 54 per cent had been disbursed by that time. Table 9 and Figure 4 illustrate that actual disbursements have continually lagged behind original and revised estimates.

3.32 Similarly, the aggregated estimated completion dates for projects have showed some small slippage as well. Table 10 shows the changes to the mean, median and range of completion dates from one progress report to the next. Although, projects have slipped on average (mean) 4.5 months, this does not take into account three projects where administering departments have not provided estimated completion dates. Furthermore, two and a third projects, (Belgenny Farm Wool Centre, Brisbane Light Rail (Briztram) and part of the Federation Parks Initiative (Vic and SA Defence Lands)) are no longer going ahead. The status of each Federation Fund project reported as at June 2001 is listed at Appendix 1.

Table 9

Actual and estimated Federation Fund expenditure over time^a

Reporting Periods	Actual and Estimated expenditure (\$m) over time							
	Jan-Jun 1999	Jul-Dec 1999	Jan-Jun 2000	Jul-Dec 2000	Jan-Jun 2001	Jul 2001-Jun 2002	Jul 2002-Jun 2003	Miscellaneous
Approved – Apr 1999	200.0	256.5		300.0		250.2	-	
Revised – Jun 1999	33.4	414.2		313.5		226.6	9.0	10.0 ^b
Revised – Dec 1999	33.4	107.8	321.7	332.6		192.5	9.0	10.0 ^b
Revised – Jun 2000	33.4	107.8	97.5	476.4		130.5	30.4	131.0 ^{b,c,d}
Revised Dec 2000	33.4	107.8	97.5	155.7	195.3	281.3	72.6	63.2 ^{d,e}
Current – Jun 2001	33.4	107.8	97.5	155.7	144.3	Not Available		

a – Actual expenditure is in bold type and shaded. Includes FCHP and FCP programmes.

b – Includes funding for the Federation Parks Initiative (Vic and SA Defence Lands) project (\$10 million) for which an expenditure timetable is uncertain.

c – Includes funding for the Brisbane Light Rail project (\$65) and Belgenny Farm Wool Centre project (\$6 million) that are no longer going ahead. This funding was reallocated to replacement projects which has been reflected in the report for the following reporting period.

d – Includes funding for part of the Sydney Harbour Federation Trust (\$50 million), for which an expenditure timetable is uncertain.

e – Includes funding for part of the No.4 Treasury Place project (\$6.8 million), for which an expenditure timetable is not available. Also includes funding for part of the Federation Parks Initiative (Vic and SA Defence Lands) project (\$5 million) that is no longer going ahead. The replacement projects for this funding are yet to be announced. Also includes unspent funding from the Garden Island component of the Sydney Harbour Federation Trust project (\$1.4 million) for which an expenditure timetable is not available.

Source: ANAO analysis of PM&C records.

Figure 4

Cumulative Federation Fund expenditure over time

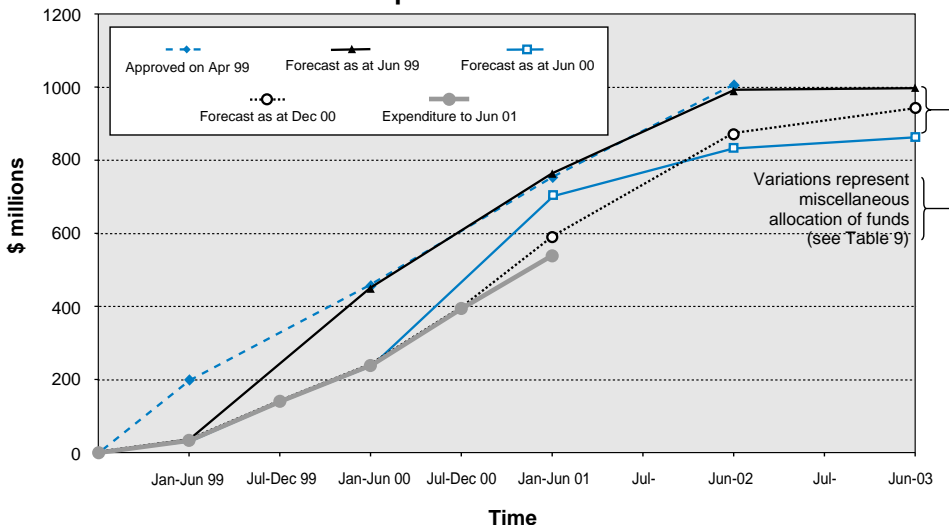


Table 10
Changes in estimated completion dates over time

Reported Progress	No. of projects ^a	Mean slippage (months)	Median Slippage (months)	Range (months)	
				Lowest	Highest
Progress Reports – June to December 1999	29.2	2.5	0	-12	24
Progress Reports – January to June 2000	28.8	0.3	0	-18	10
Progress Reports – June to December 2000	27.0	1.5	1	-3	12
Progress Update - January to June 2001	27.0	0.3	0	-3	6
Total (June 1999 to June 2001)	25.0	4.5	2	-9	24

a – The number of projects on which the figures in this table are based varies because: of a lack of comparable information; two projects and a component of another are not going ahead; and some others have been completed.

Source: ANAO analysis of PM&C records.

3.33 The ANAO found that delays have been experienced in finalising the negotiation of funding agreements and during the projects' construction. Some of the delays were caused by factors outside the control of administering departments such as compliance with environmental and heritage requirements and compliance with the National Code of Practice for the Construction Industry (NCPCI). Other delays, though outside administering departments' control, were within their sphere of influence. For example, when the finalisation of funding agreements for the Murray River Bridges became delayed in the States, DTRS recommended that its Minister write to the Premiers of NSW and Vic to progress the project. The Minister followed DTRS' recommendation and also issued a media release noting the reasons for the delay.

3.34 The ANAO also observed instances of too passive monitoring and/or lack of timely follow up action by administering departments that have contributed to delays in the projects concerned. Examples include the Australian Centre for Christianity and Culture (Case Study 2) and, in respect of the FCHP programme, the Federation Family (mentioned earlier) and Wivenhoe Villa projects. The ANAO considers that close monitoring of all projects and timely responses to issues arising, where necessary, is required to contain any further delays.

Internal reporting of progress

3.35 Reporting has the dual purpose of identifying emerging problems, so that corrective action can be taken, and also contributing to accountability. Reporting can be broadly categorised into internal and external reporting. Internal reporting includes briefing departmental executives, Ministers and Cabinet. Reporting of progress and emerging project issues to departmental executives and Ministers within administering departments was, in general, timely and comprehensive.

3.36 In addition to the reporting within portfolios, all administering departments report every six months to PM&C on the progress of Federation Fund projects. PM&C, in turn, collates the information for the Government's consideration. The ANAO notes that at the start of the audit, the PM&C's Federation Fund progress reports, while providing a reasonable summary of projects' progress, did not provide any indication of progress on the achievement of Federation Fund programme objectives.

Programme evaluation and accountability

3.37 Public reporting of performance against programme objectives is the primary means through which departments and the government discharge their accountability requirements to the Parliament and the public. In the absence of any separate, tailored performance reports, this accountability is usually achieved through disclosure in Portfolio Budget Statements and departmental annual reports. However, as the Prime Minister noted recently, one of the challenges in contemporary Commonwealth administration is the capacity of departments to successfully interact with each other in pursuit of whole-of-government goals.³⁶ The Prime Minister observed that, in recent years, issues have more consistently reached across traditional portfolio boundaries and this trend will increase as time goes by. And whole of government approaches, collectively owned by several Ministers, will become a common response. The Prime Minister indicated that agencies will be required to find ways to minimise any limitations associated with what could be described as the 'silo effect'. One of the limitations is the challenges associated with measuring and reporting on the achievement of government outcomes when delivered by a number of portfolios. This issue has been recognised in connection with a number of reviews by Senate committees of the performance information shown in Portfolio Budget Statements.³⁷

³⁶ Howard MP, Hon. John (2001), *op. cit.*

³⁷ see ANAO (2001), *Review of Accrual Budget Documentation*, a submission to a review conducted by the Joint Committee of Public Accounts and Audit.

3.38 Although expenditure from the Federation Fund has been adequately accounted for in departmental annual reports, departments, in general, are not reporting performance against programme objectives. The ANAO found that, in relation to the Federation Fund, no Commonwealth department(s) is/are individually or collectively responsible for monitoring the performance of the Federation Fund projects against programme objectives. Consequently, up to the time of the audit, very little performance information on the achievement of the programme's overall objectives had been collected or reported to the Parliament.

3.39 Shortcomings with respect to Federation Fund programme performance management can be attributed to the transfer of projects from PM&C to administering departments when overall programme management responsibility was not canvassed; reinforced by PM&C's six monthly reports that did not require administering departments to report on project performance against programme objectives.

3.40 PM&C advised that the Fund effectively came to an end as a programme when the selection process for projects was completed.³⁸ In PM&C's view, the Federation Fund should now be regarded as a number of stand-alone projects that are managed by relevant line departments, rather than a programme that requires continuing whole-of-government oversight.

3.41 PM&C accepts that in certain circumstances there may be merit in whole-of-government performance reporting, including for closely related services across portfolios, such as benefit payments and labour market services, or the integration of services for regional communities. The case for whole-of-government performance reporting is not considered to be strong for the stand alone major Federation Fund Projects such as the National Museum of Australia, the Alice Springs to Darwin railway and the Victorian Regional Galleries. The funds for individual Federation Fund projects have been transferred from PM&C to relevant line departments, for example, rail and bridge projects to the Department of Transport and Regional Services and cultural institutions to the Department of Communications, Information Technology and the Arts. PM&C advised that it seems more logical for those departments to report on the performance of those projects given the links with their broader portfolio responsibilities.

³⁸ Although the ANAO notes that projects are still being selected to replace others that are no longer proceeding.

3.42 In August 2000, following a request from PM&C to enhance the reports it provides to the Government, the administering departments sought programme-related performance information from the recipients of Federation funding. However, such information is not available on many completed projects and the quantity and quality of the information received on other projects varies considerably, thus impeding its usefulness. Only nine projects (valued at some \$200 million) have reported their performance against the '*significant and ongoing economic, social and/or cultural contributions to Australia and the Australian economy*' programme objective. Only two of these projects (each valued at \$1 million) provided good performance information against this programme objective. In relation to the '*to generate jobs in the construction phase*' programme objective, 2.7 million hours of construction work has been generated (about 1500–1600 full-time jobs over one year) for expenditure of \$270.1 million from the Federation Fund. This performance result, however, does not provide a breakdown of the number of new jobs created (and sustained) as opposed to existing labour that received work under the Federation Fund. Furthermore, as no performance targets were set in advance, it is difficult to determine whether \$100 of Federation funding per hour of construction work represents value for money.

3.43 The ANAO acknowledges that tangible programme-related performance attributable to Federation Fund projects can be difficult to identify, but as the Walhalla Goldfields Railway project illustrates (Case Study 3), it is possible to obtain. DEH is the only department well placed to comprehensively evaluate the Federation Fund major projects they administer because of the FCHP standard funding agreement applied to those projects that requires recipients to report progress against programme objectives. DCITA has developed an evaluation database and has commenced gathering programme objective related performance information from recipients.

3.44 To avoid the 'silos effect' in future, the ANAO considers that, for programmes similar to the Federation Fund, consideration should be given to identifying a 'lead agency' where responsibility would lie for informing Parliament on a timely basis as to the progress of projects of the programme and progress towards the achievement of the programme objectives from a whole-of-government perspective. This would enhance the accountability of such programmes involving the significant expenditure of public funds. Such reporting would be expected to taper off as program objectives were achieved or programmes were replaced.

Case Study 3

Walhalla Goldfields Railway (managed by ISR)

Federation Fund Programme Objectives (extract):

Significant and ongoing economic, social and/or cultural contributions to Australia and the Australian economy:

- (a) Number of people directly employed subsequent to completion; and*
- (b) Assessment of the ongoing economic, social and/or cultural contribution of the project.*

Reported performance:

- (a) Initially four full time employees which will eventually increase to six full time employees and five part time employees.
- (b) As the project nears completion, a great deal of interest has been generated for visits to this region. Consequently more new commercial activity has begun to occur in the region as a result of the new tourism opportunities being created by the railway. For example:
 - A planning permit has been applied for to construct another new hotel in Walhalla to meet the anticipated demand being created by the railway operating into town;
 - A new horse drawn carriage service to connect with train arrivals has been established; and
 - Tour groups and tour operators within the region, Victoria and interstate are focussing on Walhalla. Consequently, new tour packages have been developed particularly in conjunction with the railway and more generally within the region. These will substantially increase after 3 May 2001, the anticipated date of the Official Opening of the railway into Walhalla.

It is envisaged that visitations to the railway and the region will increase by 40% after the railway opens in Walhalla.

The Walhalla project has great cultural significance in that it replicates the construction done in the period 1900 to 1910 when the first railway was built to service Walhalla. The project also has great heritage value. One of the six bridges has both federal and state heritage listings and the Walhalla Goldfields Railway is in the process of getting the entire railway listed under the Heritage Act.

Conclusion

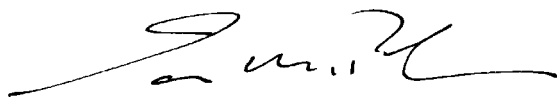
3.45 The management of approved Federation Fund projects by administering departments has generally been sound, which is creditable given the complexity of many projects and the general lack of additional resources allocated to the task. However, there were some shortcomings in the transfer of projects to administering departments by PM&C, which adversely impacted on departments' capacity to plan, establish, monitor and evaluate the projects, with consequent implications for the programme overall.

3.46 In some cases, payments were made to recipients without commensurate progress against milestones. In these cases, departments did not appear to assess progress reports adequately against agreement requirements before making payments.

3.47 One of the key Federation Fund programme objectives was that projects should be *'well advanced, but not necessarily complete by 2001'*. However, actual disbursements have continually lagged behind original and revised estimates. Projects' estimated completion dates have also slipped by an average (mean) of four months. The latest reported progress indicates that 25 projects valued at \$354 million are expected to be completed by the end of 2001. Administering departments now expect all projects to be completed by the end of 2003. Although some delays are beyond the control and influence of the Commonwealth, the ANAO found that some administering departments have contributed to delays in some projects through too passive monitoring and/or lack of timely follow-up action. Close monitoring of all unfinished projects and timely responses to issues arising, where necessary, is required to contain any further delays.

3.48 No single Commonwealth department has the responsibility for monitoring the collective performance of Federation Fund projects against the programme's objectives. Consequently, up to the time of the audit, very little performance information on the achievement of the programme's overall objectives had been collected or reported to the Parliament.

3.49 Where more than one portfolio is responsible for delivering the Government's programme objectives, the concept of whole of government performance reporting through the identification of a 'lead agency', is an area of potential improvement in Commonwealth reporting and accountability. In programmes of this nature, reporting only in individual departmental Portfolio Budget Statements and Annual Reports contributes to a 'silo effect' that would be avoided in future programmes of this nature through a more comprehensive reporting of the programme outcomes. This is a generic issue worthy of further consideration because whole of government responses, collectively owned by several ministers, are expected to increasingly become a common response.³⁹



Canberra ACT
19 September 2001

Ian McPhee
Acting Auditor-General

³⁹ Howard MP, Hon. John (2001), *op. cit.*

Appendices

Appendix 1

Federation Fund Projects

Project	Funding Assistance (\$m)	Disbursed to Jun 2001 (\$m)	Actual or estimated completion date as at Jun 2001
<i>Communications, Information Technology and the Arts</i>			
National Museum of Australia	146.874	144.246	Mar 2001
Queensland Heritage Trails Network	50.000	3.500	Various 2001 & 2002
Australian Centre for the Moving Image	50.000	39.000	Oct 2001
National Gallery of Victoria	25.000	6.000	Jun 2002
National Institute for the Dramatic Arts (NIDA)	25.000	23.000	Mar 2002
Comtechport (Commonwealth Technology Port)	22.500	11.000	Jun 2002
Victorian Regional Art Galleries	12.000	8.695	Various
Australian Federation Centre	5.500	5.100	Mar 2001
Prospectors' and Miners' Hall of Fame	5.000	4.500	Sep 2001
Australian Centre for Christianity and Culture	5.000	4.900	Jan 2002
Shearers' Hall of Fame	4.660	2.000	Dec 2001
Broken Hill Line of Lode	4.625	4.545	Mar 2001
Gunnedah Performing Arts Centre	1.625	1.600	Mar 2001
Australian Museum of Flight (formerly Australian Naval Aviation Museum)	1.600	1.600	Jun 2001
Tamworth Regional Entertainment Centre	1.250	1.250	Jan 1999
Tasmanian Symphony Orchestra Concert Hall	1.000	0.800	Mar 2001
FCHP (part)	33.912	27.067	Dec 2001 (except 2)
FCP	29.810	27.499	Dec 2001 (except 10)
<i>Sub-total</i>	425.356	316.302	
<i>Transport and Regional Services</i>			
Alice Springs to Darwin Railway	100.000	45.000	Dec 2003
Brisbane Light Rail	0.000 ^a	0	Not Proceeding
Murray River Bridges – Corowa, Robinvale, and Echuca	44.000	0	Corowa (Jun 2002), Robinvale (Jun 2003), Echuca (Jun 2003)
Bruce Highway, Caboolture	40.000 ^a	0	post 2001
Abt Railway	20.450	19.620	Dec 2001
Beaudesert Heritage Light Rail	5.000 ^a	0	Dec 2002
Very Fast Train proving stage	1.000	1.000	Dec 2000
<i>Sub-total</i>	210.450	65.620	

Project	Funding Assistance (\$m)	Disbursed to Jun 2001 (\$m)	Actual or estimated completion date as at Jun 2001
Environment and Heritage			
Sydney Harbour Federation Trust (part)	46.000 ^b	0.750	unknown
Centennial and Moore Parks	10.000	9.865	Dec 2001
Belgenny Farm Wool Centre	0.000 ^b	0	Not Proceeding
St. Andrew's Cathedral	5.000	5.000	Dec 1999
Oddfellows' Hall, Corowa	0.750	0.680	Sep 2001
FCHP (part)	36.452	28.621	Dec 2001 (except 11)
Sub-total	98.202	44.916	
Industry, Science and Resources			
Jervoise Bay Infrastructure Enhancement	80.000	27.000	Jul 2002
Institute of Molecular Bioscience	15.000	11.500	Sep 2002
National Marine Science Centre	12.000	7.450	Feb 2002
Grahame Park Stadium	12.000	12.000	Feb 2000
Holsworthy Shooting Range	9.000	0.024	Dec 2001
Bendigo and Ballarat sports facilities	1.987	1.987	Dec 1999 & Mar 2000
Walhalla Goldfields Railway	1.000	1.000	Oct 2001
Manuka Oval	1.000	1.000	Dec 2000
Sub-total	131.987	61.961	
Defence			
Sydney Harbour Federation Trust (part)	56.000	4.598 (est.)	Garden Island (Dec 2001), Remainder (unknown)
Federation Parks Initiative (Vic and SA Defence Lands)	10.000 ^c	Unknown	Fort Queenscliffe (not proceeding), Torrens Parade Ground (Oct 2001) Portsea (Dec 2001)
Sub-total	66.000	4.598	
Health and Aged Care			
Comprehensive Cancer Research Centre	20.000 ^a	10.000	Likely in 2001
Sub-total	20.000	10.000	
Veterans' Affairs			
Australian War Memorial – ANZAC Hall	11.900	11.900	Jun 2001
Shrine of Remembrance	5.000	1.000	Apr 2002
Sub-total	16.900	12.900	

Project	Funding Assistance (\$m)	Disbursed to Jun 2001 (\$m)	Actual or estimated completion date as at Jun 2001
<i>Finance and Administration</i>			
No.4 Treasury Place	15.800	9.000 ^d	May 2001
<i>Sub-total</i>	15.800	9.000	
<i>Agriculture, Fisheries and Forestry</i>			
National Wine Centre	12.000	12.000	Aug 2001
<i>Sub-total</i>	12.000	12.000	
<i>Education, Training and Youth Affairs</i>			
Victorian College of the Arts	10.000	6.000	Feb 2002
<i>Sub-total</i>	10.000	6.000	
Grand Total	1006.695	543.297 (54.0%)	

Shaded projects have been completed (as at June 2001).

- a – Funds originally allocated to Brisbane Light Rail (\$65 million) have now been transferred to: Bruce Highway, Caboolture (\$40 million); Cancer Research Centre (\$20 million) and Beaudesert Heritage Light Rail (\$5 million).
- b – Funds originally allocated to the Belgenny Farm Wool Centre (\$6 million) have now been transferred to the Interim Sydney Harbour Federation Trust.
- c – The Fort Queenscliffe, Victoria component of this project (\$5 million) is no longer going ahead. Defence is to retain ownership of this property. The Federation funding involved has been reallocated but decisions have not yet been announced.
- d – Only \$9 million of the project's \$15.8 million was ultimately funded from the Federation Fund. Finance has not provided PM&C with information pertaining to the expenditure of the remaining \$6.8 million.

Source: Federation Fund progress information submitted to PM&C supplemented by more up-to-date information from administering departments.

Appendix 2

Ratings of Approved Proposals by State

NSW approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
High	3½	53.8	7½	528.8	46.7	10.2
Medium/High	3	10.5	3	10.5	100.0	100.0
Medium	6	140.6	27	1004.0	22.2	14.0
Low/Medium	0	0.0	3	29.0	0.0	0.0
Low	2	6.6	9	368.4	22.2	1.8
<i>Not Rated^c</i>	1	1.0	2	18.0	50.0	5.6
NSW	15½	212.5	51½	1958.7	30.1	10.8

a – Fractions of proposals represent the allocation of multi-State proposals with discrete components to their respective States.

b – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

c – *Detailed Assessments* were not prepared for these proposals.

Source: ANAO analysis of PM&C records.

VIC approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
High	2.5	94.5	3.5	294.5	71.4	32.1
Medium	2.0	27.8	10.0	446.3	20.0	6.2
Low/Medium	2.0	12.0	2.0	12.0	100.0	100.0
Low	1.0	1.0	4.0	147.4	25.0	0.1
<i>Not Rated^c</i>	2.7	37.0	2.7	37.0	100.0	100.0
VIC	10.2	172.3	22.2	937.2	45.9	18.4

a – Fractions of proposals represent the allocation of multi-State proposals with discrete components to their respective States.

b – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

c – *Detailed Assessments* were not prepared for these proposals. It includes the National Gallery of Victoria proposal selected before the Federation Fund Assessment Process was settled.

Source: ANAO analysis of PM&C records.

QLD approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
High	2	115.0	3	202.0	66.7	56.9
Medium	1	15.0	2	19.0	50.0	78.9
Low	0	0.0	4	161.9	0.0	0.0
QLD	3	130.0	9	382.9	33.3	34.0

a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

Source: ANAO analysis of PM&C records.

WA approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
High	1	80.0	3	109.7	33.3	72.9
Medium/High	1	5.0	1	5.0	100.0	100.0
Medium	0	0.0	1	9.0	0.0	0.0
Low/Medium	0	0.0	1	+	0.0	0.0
Low	0	0.0	3	37.8	0.0	0.0
WA	2	85.0	9	161.5	22.2	52.6

a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

+ - The amount sought has not been specified

Source: ANAO analysis of PM&C records.

SA/NT approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
Low	1.0	12.0	1.0	12.0	100.0	100.0
<i>Not Rated^c</i>	1.3	103.0	1.3	103.0	100.0	100.0
SA/NT	2.3	115.0	2.3	115.0	100.0	100.0

a – Fractions of proposals represent the allocation of multi-State proposals with discrete components to their respective States.

b – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

c – *Detailed Assessments* were not prepared for these proposals. Includes the Alice Springs to Darwin Railway project approved before the Federation Fund Assessment Process was settled.

Source: ANAO analysis of PM&C records.

TAS approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
High	1	1.0	2	13.5	50.0	7.4
Medium/High	1	20.5	1	20.5	100.0	100.0
Medium	0	0.0	4	42.8	0.0	0.0
Low	0	0.0	1	+	0.0	0.0
TAS	2	21.5	7	76.8	28.6	28.0

a Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

+ - The amount sought has not been specified

Source: ANAO analysis of PM&C records.

ACT approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
Medium	2	17.4	2	17.4	100.0	100.0
Low	0	0.0	2	43.5	0.0	0.0
<i>Not Rated^b</i>	3	153.0	3	153.0	100.0	100.0
ACT	5	170.4	7	213.9	71.4	79.7

a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

b – *Detailed Assessments* were not prepared for these proposals. Includes the NMA project approved when the Federation Fund was settled.

Source: ANAO analysis of PM&C records.

NATIONAL approved proposals by Taskforce rating

Suitability Rating	Approved proposals		Proposals put before the Committee of Ministers, Cabinet and/or the PM		Percentage of proposals approved	
	No. ^a	Value (\$m)	No. ^a	Value (\$m) ^b	By No.	By Value
High	0	0.0	1	80.0	0.0	0.0
Medium	0	0.0	6	1133.0+	0.0	0.0
NATIONAL	0	0.0	6	1213.0	0.0	0.0

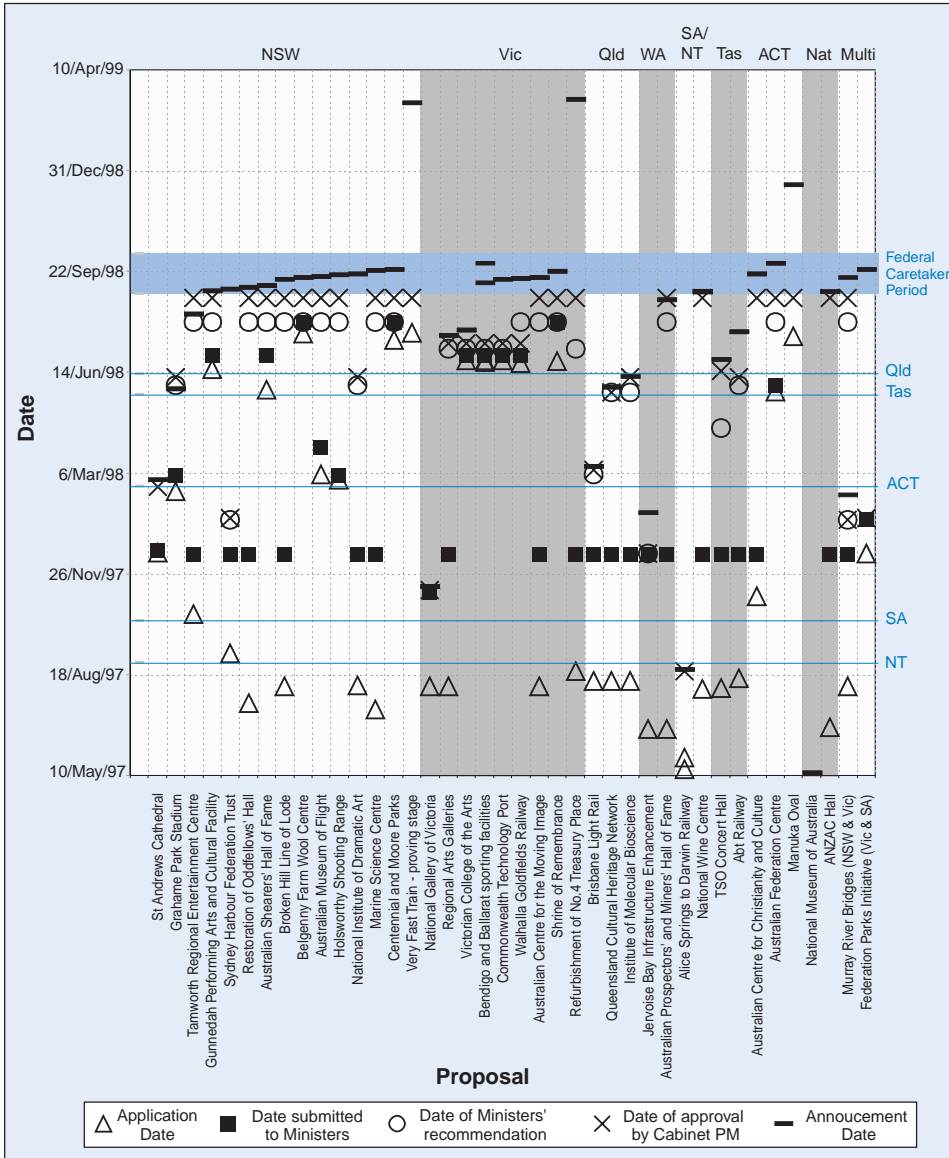
a – Value is calculated as: approved proposals – the amount approved; and unsuccessful proposals – the amount sought.

+ - Includes two proposals where the amount sought has not been specified

Source: ANAO analysis of PM&C records.

Appendix 3

Chronology of Approved Projects



(sorted by State and by announcement date)

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