The Auditor-General
Audit Report No.11 2011–12
Performance Audit

Implementation and Management of the Housing Affordability Fund

Department of Families, Housing, Community Services and Indigenous Affairs

Department of Sustainability, Environment, Water, Population and Communities

Australian National Audit Office

ISSN 1036–7632

ISBN 0 642 81216 0

Australian National
Audit Office

Canberra ACT
3 November 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Implementation and Management of the Housing Affordability Fund.*

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

Yours sincerely

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). 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 Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: **(02) 6203 7505**
Fax: **(02) 6203 7519**
Email: **webmaster@anao.gov.au**

ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Audit Team
Bill Bonney
Graham Smith
Amin Bangun
Matt Tolley
Nathan Williamson

Contents

Abbreviations 8
Glossary 10
Summary and Recommendations 13
Summary 15
Introduction 15
The Housing Affordability Fund 16
Audit objective and approach 21
Overall conclusion 22
Key findings by chapter 26
Summary of agencies’ responses 32
Recommendations 33
Audit Findings 35
1. Introduction 37
Housing affordability 37
The Housing Affordability Fund 40
Audit objective and approach 46
2. The First HAF Funding Round 50
Introduction 50
Managing risks 52
The HAF guidelines 53
The HAF selection criteria 55
Assessment of applications in the first funding round 60
Funding recommendations and approvals in the first funding round 68
Funding the public housing redevelopment projects 71
Conclusion 77
3. The Second HAF Funding Round 79
Introduction 79
Managing risks 82
The HAF guidelines 83
The HAF selection criteria 84
Funding the Victorian public housing redevelopment project 88
Assessment of applications in the second funding round 90
Funding recommendations in the second funding round 92
Approving grants in the second funding round 96
Conclusion 97
4. Executing and Managing Funding Agreements 100
Introduction 100

Signing funding agreements ... 101
Grants reporting ... 103
The form and content of funding agreements ... 104
Monitoring the performance of the funded projects ... 120
Varying and terminating funding agreements ... 127
Conclusion ... 129
5. Performance Reporting ... 131
Introduction ... 131
Measuring and reporting the HAF's performance ... 131
Management reporting ... 135
Conclusion ... 137
Appendices ... 139
Appendix 1: Agencies' Responses ... 140
Appendix 2: Categories of Projects Funded from the HAF ... 142
Appendix 3: The Australian Government's Grants Administration Framework ... 144
Appendix 4: Details of Examined Projects ... 147
Index ... 151
Series Titles ... 153
Current Better Practice Guides ... 155

Tables

Table S.1 Published selection criteria ... 19
Table 1.1 Details of committed HAF funding ... 42
Table 1.2 Structure of audit report ... 49
Table 2.1 Analysis of the HAF Guidelines in the first funding round ... 55
Table 2.2 Assessment of the selection criteria in the first funding round ... 59
Table 2.3 Changes in risk weightings ... 64
Table 2.4 Illustration of impact of changes in risk weightings on adjusted profit score ... 65
Table 2.5 Illustration of coding errors in swing weight adjustment ... 66
Table 2.6 Illustration of error in calculating estimated dwelling demand ... 67
Table 2.7 Options provided to the then Minister for Housing to address the potential expenditure shortfall in 2008–09 ... 72
Table 3.1 Analysis of the HAF Guidelines in the second funding round ... 84
Table 3.2 Description of the selection criteria in the second funding round ... 86
Table 3.3 Assessment of the selection criteria in the second funding round ... 88
Table 3.4 Different views of recommended projects presented to the then Minister for Housing ... 92
Table 4.1 Desirable core elements for funding agreements ... 106
Table 4.2 Funding agreements that do not quantify the amount of savings ... 108

Table 4.3 Projects involving infrastructure works with required savings less than amount of grant ... 109
Table 4.4 Analysis of information about savings in funding agreements for reform projects ... 111
Table 4.5 Number of scheduled grant payments in the examined projects ... 114
Table 4.6 Methods used by FaHCSIA to set up payment milestones in FOFMS ... 122
Table 5.1 Analysis of HAF performance reported in FaHCSIA's 2009–10 Annual Report ... 133
Table 5.2 Description of HAF management reporting ... 136
Table 5.3 Analysis of key information in management reports ... 137

Figures

Figure 1.1 Factors influencing housing affordability ... 38
Figure 1.2 Range of approved grants ... 43
Figure 1.3 Key dates in the HAF's two funding rounds, including enhancements to the Australian Government's grants administration framework ... 45
Figure 2.1 Key steps in calculating a proposal's merit score in the first funding round ... 61
Figure 2.2 FMA Regulations relating to spending public money prior to 1 July 2009 ... 70
Figure 4.1 Time taken to sign funding agreements ... 102
Figure 4.2 Summary of errors in reported HAF grants ... 104
Figure 4.3 Payment proportions for the examined projects ... 115
Figure 4.4 Average performance reporting frequency for the examined projects ... 117
Figure 4.5 Analysis of timing of milestone reports marked as received ... 123
Figure 4.6 Analysis of overdue milestone reports ... 124
Figure 4.7 Analysis of time between receipt and acceptance of milestone reports ... 125

Abbreviations

ANAO	Australian National Audit Office
APS	Australian Public Service
BPG	Better Practice Guide
CGGs	Commonwealth Grant Guidelines
CEO	Chief Executive Officer
COAG	Council of Australian Governments
EM	Estimates Memorandum
EOI	Expressions of Interest
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FMA	Financial Management and Accountability
FMIS	Financial Management Information System
FOFMS	FaHCSIA's Online Funding Management System
HAF	Housing Affordability Fund
HIA	Housing Industry Association
GST	Goods and Services Tax
KPI	Key Performance Indicators
MYEFO	Mid-Year Economic and Fiscal Outlook
NAHA	National Affordable Housing Agreement
NSW	New South Wales

PBS	Portfolio Budget Statements
PIR	Post Implementation Review
PSP	Precinct Structure Planning
REIA	Real Estate Institute of Australia
SEWPaC	Department of Sustainability, Environment, Water, Population and Communities
Vic	Victoria

Glossary

Conflict of interest	A situation where decisions are made or powers are exercised in a way that may be, or may be perceived to be, influenced by either personal interests or associations.
Deliverables	The activities required to be undertaken, and the goods and/or services and performance reports required to be provided, by the proponent of each funded project.
Financial security	An instrument put in place that guarantees the return of grant moneys in the event that the project proponent does not meet the obligations attached to their grant.
Funding agreement	A contract setting out the terms and conditions on which a grant is provided.
Grant	The provision of public money to a recipient other than the Australian Government: • which is intended to assist the recipient achieve its goals; and • which is intended to promote one or more of the Australian Government's policy objectives; and • under which the recipient is required to act in accordance with any specified terms and conditions.
Grant guidelines	Publicly available document designed to facilitate potential funding recipients' understanding of the program and encourage the submission of high quality applications.
Grants administration	Encompasses the whole process of granting activities, including planning and design; selection and decision-making; making the grant; management of funding agreements; reporting; and review and evaluation.

Housing affordability	Housing affordability relates to a person's ability to pay for their housing. The affordability of houses is influenced by many factors, including the price of the house, interest rates, the level of household income, and a range of related demand and supply factors.
Key Performance Indicators	Measures established to provide qualitative and quantitative information on the effectiveness of a program in achieving its objectives.
Milestones	Key dates, events or deliverables contained in the funding agreement.
Management reporting	The collation and dissemination to managers of financial and non-financial information about the performance of the activities or programs of an organisation.
Savings	In the context of the HAF, the amount of the reduction required in the selling price of dwellings to be passed on to eligible home buyers, or the reduction in the time taken in development planning, assessment and application processes.
Selection criteria	The measures against which applications are judged to assess their eligibility and their relative merits against the program's objectives. In a competitive, merit-based selection process, the selection criteria also provide the basis for determining the order of ranking of the eligible applications.
Value for money	A primary consideration in all aspects of grants administration. Value for money relates to using resources optimally to best achieve intended outcomes. Measures of value for money take into account the costs of goods and services, as well as quality, relative risks, fitness for purpose and timeliness.

Summary and Recommendations

Summary

Introduction

1. Housing quality is an important determinant of individual and family wellbeing. Good housing provides protection; access to essential services such as water, heating and sanitation; privacy; a place to keep possessions secure; a place to spend time with friends and family; and a means of expressing one's identity.[1] However, access to good housing can place significant demands on individual and family incomes if housing affordability is low. Housing affordability is a complex issue that is affected by a wide range of economic and social factors, including house prices, interest rates, levels of household income, inflation, housing availability and consumer tastes and preferences.[2] When people struggle to pay for their housing, they are said to experience 'housing affordability stress'.

2. Housing affordability stress can have serious consequences for individuals and families, and if this stress is sufficiently prevalent, consequences can also be observed at local, regional and even national levels. At the household level, housing affordability stress has an adverse effect on household budgets, possibly resulting in an overall reduction in quality of life. More broadly, housing affordability can affect decisions about where to live and work, where (or whether) to invest in property, and overall patterns of consumer spending and saving.

3. A range of indicators reflect lower levels of housing affordability and higher levels of housing affordability stress in Australia over the past decade. The National Housing and Supply Council reported that rapidly rising house prices between 1996 and 2008 contributed to a significant decline in housing affordability in Australia.[3] The ABS reports that the proportion of homes sold that were affordable to low and moderate income households declined from 51 per cent in 2003–04 to 34 per cent in 2007–08.[4] The Housing Industry

---

1 Australian Bureau of Statistics, *Topics @ a Glance – Housing.* Sourced from <http://www.abs.gov.au/websitedbs/c311215.nsf/20564c23f3183fdaca25672100813ef1/e14c6280be91d6b2ca257259000b25f0!OpenDocument> [Date accessed: 29 March 2011].

2 National Housing Supply Council, *Second State of Supply Report,* April 2010, p.5.

3 Ibid., pp. 94–100.

4 Australian Bureau of Statistics, *Measuring Australia's Progress 2010 – Housing,* September 2010. Sourced from <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1370.0~2010~Chapter~Housing%20affordability%20for%20home%20buyers%20(5.4.4)> [Date accessed: 24 March 2011].

Association (HIA) reported that the *HIA-Commonwealth Bank Housing Affordability Index* in December 2010 was nearly 25 per cent lower than it was in March 2009, and was about 10 per cent below its December 2005 level.[5]

The Housing Affordability Fund

4. Given the range and seriousness of the consequences of housing affordability stress for citizens and for the economy, the Australian Government has put in place several initiatives and programs designed to help households to pay for housing and to increase the supply of affordable housing. One of these initiatives, the Housing Affordability Fund (HAF), was launched on 15 September 2008 with the objectives of increasing the supply of new homes while also reducing their cost by:

- reducing the cost of infrastructure works associated with housing developments, including connection of essential services (such as water, sewerage, and roads), construction of community facilities and open spaces (such as playgrounds), and undertaking site remediation works—referred to as infrastructure projects; and
- encouraging best practice in state and local government housing development assessment and planning processes, including speeding up development assessment and approval processes to help reduce 'holding' costs to developers—referred to as reform projects.

5. A key element in the design of the HAF was that the reductions in housing development costs associated with infrastructure projects were to be passed on to home buyers in the form of a rebate (or savings) against the market price of a certain number of new houses. To give practical effect to this policy intent, proposals for infrastructure funding were required to quantify the number of new houses that were expected to be constructed, the number of newly constructed houses to be sold at a reduced price (that is, those houses attracting savings), as well as the amount of savings that were to be passed on to buyers. In turn, funding agreements for infrastructure projects were

---

5 Housing Industry Association, *Rate Hikes Hit Housing Affordability*, February 2011. Sourced from <http://hia.com.au/Latest%20News/Article.aspx>. [Date accessed: 24 March 2011].

designed to include mechanisms to measure the construction and sale of the new houses and the delivery of savings to home buyers.[6]

6. Funding from the HAF was to be made available through competitive application and assessment funding rounds. These funding rounds were open to local governments (or local government associations), and to state and territory government agencies. Private companies, including property developers, were encouraged to participate in the HAF by entering into partnership arrangements with government.

7. The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) was responsible for the administration of the HAF until the Administrative Arrangements Order of 14 September 2010 transferred responsibility for the program to the newly created Department of Sustainability, Environment, Water, Population and Communities (SEWPaC). The transfer of responsibility between the two departments was given practical effect through the transfer of staff and resources on 28 October 2010.

8. Through the HAF, the Australian Government planned to make available $500 million over the five year period from 2008–09 to 2012–13, with a further $12 million allocated to administer the fund. By September 2010, a total of $447.4 million had been committed from the HAF for 75 projects across Australia. Nine of these projects (worth $29.6 million), which related to the development and implementation of integrated electronic development application systems in each state of Australia, were not included within the scope of this audit. Funding for 62 of the 66 projects included in the scope of this audit (worth $234 million) was approved from the HAF through one of two competitive funding rounds, while funding for the remaining four projects (worth $183.8 million) was provided through direct offers made by the Australian Government for public housing redevelopment projects. By the end of September 2010, FaHCSIA had signed funding agreements in place for 49 of these 66 projects:

- 41 projects (worth $301.8 million) involving infrastructure works; and
- eight reform projects (worth $23.2 million).

[6] These mechanisms included listing the number of dwellings to be constructed and the number required to be sold at a reduced price; listing the amount of the reduction (or savings) required to be passed on to home buyers; requiring the gross selling price of each home (that is, before the required reduction) to be determined by independent registered valuers; and defining the categories of eligible purchasers (home buyers).

9. All of the 41 infrastructure-related projects and one of the eight reform projects were required to pass savings to home buyers.

How the two funding rounds worked

10. The guidelines published for each of the HAF's funding rounds indicate that the HAF was designed to be a competitive, merit-based discretionary grant program. In this regard, the guidelines for both funding rounds stated that the relative merits of applications for funding were to be assessed against the selection criteria contained in the guidelines. Table S.1 outlines the selection criteria contained in the guidelines for each funding round.

Table S.1

Published selection criteria

Funding round	Selection criteria
First	**Mandatory criteria** • compliance with existing Commonwealth, state and territory and local government regulations • future viability • leading practice—for infrastructure only proposals • applications would generally only be accepted from an eligible organisation (listed as local governments, local government associations or state and territory government departments) • the development was required to start in 2008–09 • 30 per cent of the funding was required to be scheduled to be paid in 2008–09 **Merit-based criteria** • value for money • high demand for new dwellings • more affordable homes • accessibility and sustainability • risks of delivering the proposal
Second	**Mandatory criteria** • compliance with Commonwealth, state, territory and local government requirements • infrastructure projects were required to deliver at least 50 new subsidised homes • applications only accepted from eligible organisations (listed as local governments, local government associations, and state or territory government departments or agencies **Merit-based criteria** [A] • affordability and supply • accessibility and sustainability

Note A: Although value for money is not specifically identified as one of the selection criteria in the second funding round, the guidelines stated that the overriding principle guiding the selection process was value for money.

Source: ANAO analysis.

11. The first funding round involved a two-stage application and assessment process. The first stage involved the assessment of expressions of interest, and the second stage entailed the assessment of more detailed business cases submitted by applicants shortlisted from the first stage. Following an independent review designed to help inform the conduct of future funding rounds, FaHCSIA decided that the second funding round would be a single-stage application and assessment process.

12. In each funding round, FaHCSIA used an automated tool in the assessment of the relative merits of applications against the published selection criteria. Following its assessment of applications, FaHCSIA provided a series of funding recommendations to the then Minister for Housing, including details of the projects that the department recommended be funded. The then Minister had responsibility for the funding decisions made under the HAF.

The public housing redevelopment projects

13. Three of the four public housing redevelopment projects funded from the HAF (worth $24.4 million) were approved for funding in June 2009 in order to utilise unspent program funds. The remaining project (worth $159.4 million) was approved for funding in August 2009.

Funding three projects at the end of the first funding round

14. In mid-April 2009, FaHCSIA advised the then Minister of a likely underspend of approximately $12 million in the HAF program for the 2008–09 financial year.[7] The department's advice outlined the following five options to address the spending shortfall:

- rephase the underspent funding to the 2009–10 financial year;
- return the underspent funds;
- support a proposal for an affordable housing trial in Adelaide and Sydney;
- support the development of more social housing dwellings; or
- support the implementation of local government reforms aimed at delivering more affordable housing.

15. The department recommended allocating funding to each of the latter two options to offset the likely underspend. Departmental records indicate that the then Minister asked to discuss the department's recommendations. However, the department did not have any record of the outcome of these discussions. FaHCSIA advised the ANAO that the department approached a

---

7 FaHCSIA anticipated the underspend as it had recommended, and the then Minister had agreed, not to fund two of the 33 proposals advanced to the second stage of the first funding round and, at that stage, it had not completed assessments of a further four proposals.

number of state and territory housing departments seeking advice on possible projects that would be ready to be advanced quickly and that were consistent with HAF objectives. As a result, FaHCSIA began exploring options to provide funds for five public housing redevelopment projects. The general purpose of funding these projects closely aligned with the fourth option to address the spending shortfall initially recommended by FaHCSIA. On 23 June 2009, the department recommended, and the then Minister approved, funding for three of these projects totalling $24.4 million, which equated to the actual amount of the expenditure shortfall.[8] None of the projects considered by the department had previously sought funding through the first funding round.

Funding the remaining project prior to launch of the second funding round

16. In August 2009, prior to the launch of the second funding round, the Australian Government agreed that the then Minister for Housing would provide $175.3 million from the HAF to the Victorian Government to support three public housing redevelopment projects. The Australian Government's decision to fund these projects from the HAF was made in the context that the then Minister for Housing would also reduce Victoria's allocation of funding from the Australian Government's Social Housing Initiative[9] by an equivalent amount. These projects had previously been proposed under stage two of the Social Housing Initiative, but had not been approved at the time. In March 2010, following negotiations with the Victorian Government, and with the then Minister's agreement, FaHSCIA finalised the agreement to provide funding of $159.4 million (GST exclusive) for these three projects.[10]

Audit objective and approach

17. The objective of the audit was to assess the effectiveness of FaHCSIA's administration of the HAF. To address this objective, the Australian National Audit Office (ANAO) assessed FaHCSIA's administration against a range of audit criteria, including the extent to which:

---

8 The actual expenditure shortfall ($24.4 million) was higher then the estimated shortfall ($12 million) advised to the then Minister in mid-April 2009. The difference was principally due to delays in starting several projects as a result of the length of time taken to finalise funding agreements. This issue is discussed in Chapter 4.

9 The Social Housing Initiative was announced in February 2009 as part of the *Nation Building Economic Stimulus Plan*. The initiative is designed to assist low-income Australians who are homeless or struggling in the private rental market by providing funding of $5.6 billion (in two stages) for the construction of new social housing and a further $400 million for repairs and maintenance to existing social housing dwellings.

10 The three projects were bundled together and funded as one HAF project.

- assessment and approval processes were soundly planned and implemented, and were consistent with the requirements of the overarching financial management framework;
- appropriately structured funding agreements were established and managed for each approved grant; and
- the performance of the HAF, including each of the funded projects, was actively monitored and reported.

18. The audit findings discussed in this report are based on the ANAO's review of the systems and processes in place at FaHCSIA, and the decisions made by FaHCSIA. The audit did not examine the transfer of resources from FaHCSIA to SEWPaC following the Administrative Arrangements Order of 14 September 2010, nor did it assess the systems and processes used by SEWPaC. However, some fieldwork was undertaken at SEWPaC in order to:

- gain an understanding of initiatives put in place by SEWPaC to administer the HAF since the transfer of responsibility; and
- obtain more up-to-date information on the progress of the examined projects and on key financial data about the HAF.

Overall conclusion

19. Over the last decade, an increasing number of Australians have experienced 'housing affordability stress', a difficulty to pay for appropriate housing within their means. This stress has a range of negative consequences for householders and their families, and for the Australian economy overall. In order to improve this situation, the Australian Government has introduced a range of initiatives intended to increase the supply of affordable housing. One such measure is the Housing Affordability Fund (HAF), launched in September 2008 with the objectives of increasing the supply of new homes, and reducing their costs to home buyers. Through the HAF, the Australian Government planned to make available $500 million over five years to support projects that would encourage best practice in housing development assessment and planning processes, and reduce the cost of infrastructure works associated with housing developments. The savings arising from these projects were to be passed on to home buyers.

20. The signed funding agreements for the 41 HAF projects (worth $301.8 million) that involve infrastructure works require that savings of $133 million be passed on to home buyers.[11] Further savings of $5.4 million are required to be passed on to home buyers by one of the eight reform projects (worth $5.7 million) with a signed funding agreement in place. In addition to these savings to home buyers, the funding agreements for the 41 infrastructure projects also require the delivery of a range of capital works and facilities that will be able to be accessed by the broader community. Departmental reports indicated that, by May 2011, the projects funded from the HAF had delivered a range of infrastructure works and a total of $11.9 million in savings to 749 home buyers. With respect to increasing the supply of housing, projects funded from the HAF are expected to bring forward the construction of over 35 000 new homes.

21. Despite these positive early signs of assistance to home buyers and their associated communities, there were serious shortcomings in FaHCSIA's administration of the program. In particular, the assessment and selection arrangements were not applied consistently. This meant that some proposals that were approved were not selected on a merit basis in accordance with the Government's policy and the program's guidelines; conversely, a number of meritorious proposals missed out on being funded. Moreover, the department did not advise the then Minister for Housing about a range of considerations to properly inform her decision-making in relation to funding projects under the program. These shortcomings have detracted from the performance of the program by not treating all applicants equitably, and by providing the responsible Minister with advice that, at times, was incomplete.

22. In administering the program, FaHCSIA conducted two grant funding rounds for the HAF. For the first funding round, FaHCSIA used an automated tool developed by an external firm to help assess the relative merits of the 76 compliant applications against the program's published selection criteria. However, there was a lack of effective control over the implementation and use of the tool; as a result, several formulaic errors in the tool affected the accuracy of the calculated scores. In turn, these errors affected the accuracy and completeness of the shortlist of proposals recommended to the then

[11] The primary reason for the difference between the total funding for the 41 infrastructure projects and the value of the savings to be delivered by those projects is that the amount of savings required to be passed on to home buyers is not quantified in two of those projects' funding agreements, including the agreement for the Victorian public housing redevelopment project (see paragraph 24).

Minister. As a consequence, two applications, worth $1.8 million, were incorrectly recommended for advancement to the second stage of the first funding round, and a further seven applications,[12] worth $13.6 million, would have been shortlisted had the tool been functioning correctly. Each of the two applications incorrectly recommended for advancement to the second stage were ultimately approved for funding in the first funding round.[13]

23. In both funding rounds FaHCSIA provided advice to the then Minister that was inconsistent with the stated intention of the HAF as a competitive, merit-based grant program. Specifically, FaHCSIA decided to seek the then Minister's approval to fund three public housing redevelopment projects, worth $24.4 million, outside of the arrangements established for the HAF's first funding round. In addition, FaHCSIA decided to moderate the ranking of applications in the second funding round to reflect parity between states, the quantum of funding in particular states, and the mix between reform and infrastructure projects. These decisions were incongruent with the guidelines published for both funding rounds, which stated all applications would be assessed against the selection criteria; that funding would be awarded based on the merits of individual applications; and that there was no specific funding levels for individual states or local government areas. In each case, FaHCSIA's funding recommendations did not inform the then Minister that the department's actions were a departure from the program's approved assessment and selection processes. Further, neither of the two funding recommendations provided to the then Minister in the second funding round contained references to the requirements of the Commonwealth Grant Guidelines (CGGs) to which the Minister was required to have regard.[14]

24. Once the then Minister had approved the distribution of funds, FaHCSIA commenced negotiations on the form and content of the funding agreements with the approved projects' proponents. For the most part, the funding agreements put in place by FaHCSIA contained terms and conditions that were commensurate with the value and scope of the funded projects and that aligned with the objectives of the HAF. However, the funding agreements

---

12 Three of these applications related to projects located in South Australia, while the other applications related to projects in Tasmania, New South Wales, Victoria and Queensland respectively.

13 These projects are located in Tasmania and Western Australia.

14 The CGGs, which were promulgated on 1 July 2009, require that Ministers are advised about these requirements in cases where they exercise the role of financial approver. Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p.11.

did not always record the level of savings required to be delivered and the number of affected dwellings. In particular, the funding agreements for some projects do not make clear the level of savings to be passed on to home buyers that will result from the grant provided. This inconsistency potentially increases the risk that the Australian Government will be unable to assess the contribution of the approved projects towards the achievement of the HAF's objectives. An example of particular note is the funding agreement for the Victorian public housing redevelopment project, which does not quantify the amount of savings to be delivered to home buyers. FaHCSIA estimates that savings from the project will be in the order of $10 million, which represents only 6 per cent of the value of the grant ($159.4 million). In terms of the HAF's objective of reducing the cost of new homes, this level of savings is very low, particularly when compared with most other HAF infrastructure projects that are required to pass on the full value of their funding to home buyers.

25. FaHCSIA's arrangements for monitoring the progress of the approved HAF projects against the performance reporting requirements contained in funding agreements were generally sound. In particular, FaHCSIA collected and analysed a range of information on the financial performance and position of the program, including information measuring implementation progress and project outputs. Since taking over administration of the HAF from FaHCSIA, SEWPaC has acknowledged the importance of positioning its monitoring arrangements for the program so that it can assess the full extent of the program's outcomes when these are realised.

26. The audit findings highlight the importance of agencies assessing the quality of work done on their behalf by third parties (in the case of the HAF, the assessment tool used in the first funding round), and providing comprehensive advice to a grant program's decision-maker on assessment and selection processes, including making clear whether there have been any departures from approved arrangements. Further, such advice should make appropriate reference to decision-maker's obligations under the Australian Government's legislative and policy framework for grants administration. The audit also indicates that greater consistency in the content of the HAF's funding agreements is necessary to support assessments of the contribution of the approved projects towards the HAF's objectives. The audit has made one recommendation designed to improve the quality of FaHCSIA's advice to Ministers and other decision-makers on the allocation of grant funding. Two further recommendations are aimed at improving arrangements for managing the performance of the approved projects, now the responsibility of SEWPaC.

Key findings by chapter

The first HAF funding round (Chapter 2)

27. FaHCSIA's planning and design work leading up to the launch of the first funding round of the HAF was generally sound. In particular, FaHCSIA:

- identified and assessed potential risk factors;
- undertook a series of targeted promotional activities; and
- developed and published guidelines to assist potential applicants.

28. The guidelines, however, had two notable shortcomings. Firstly, the guidelines did not contain information on whether FaHCSIA or the Minister had discretion to waive or amend the published selection criteria, or outline the circumstances in which this may occur.[15] Further, the guidelines did not contain information about the funding terms and conditions proposed for the successful projects.

29. FaHCSIA used a spreadsheet-based tool developed by an external firm to determine a score for each of the 76 compliant proposals received in the first funding round. The scores were based on the proposals' relative merits against the selection criteria contained in the guidelines. Overall, the broad design of the assessment tool was sound, with the key assessment measures in the tool aligning with the selection criteria published in the guidelines. However, there was a lack of effective control over the implementation and use of the tool, and there was no evidence that FaHCSIA properly tested the tool prior to its use, or subjected the results reported by the tool to any quality control measures. As a result, the tool was implemented despite containing several formulaic errors. These errors meant that each of the 76 merit scores calculated by FaHCSIA was incorrect. Based on the corrected merit scores, two projects, worth $1.8 million, were incorrectly included in the shortlist of applications that were recommended to the then Minister for advancement to stage two of the first funding round. A further seven projects, worth $13.6 million, were incorrectly excluded from that shortlist. Each of the two projects incorrectly recommended for advancement to the second stage were ultimately approved for funding in the first funding round.

[15] In the interests of transparency, accountability and equity, the CGGs, which were not promulgated until after the HAF's round one guidelines were published, require (on page 29) that a grant program's guidelines include information about the circumstances in which selection criteria may be waived or amended.

30. In mid-April 2009, towards the end of the first funding round, FaHCSIA identified a potential shortfall in total expenditure from the HAF for 2008–09. The potential underspend was primarily due to the fact that, at that stage:

- two of the 33 projects shortlisted in the first stage of the assessment process were not approved for funding; and
- FaHCSIA had not completed its assessment of a further four proposals.

31. FaHCSIA outlined five potential options to address the shortfall (see paragraph 14), two of which were recommended as the preferred course of action, to the then Minister. Departmental records indicate that the Minister asked to discuss the department's recommendations. However, the department did not have any record of the outcome of these discussions. FaHCSIA advised the ANAO that the department approached a number of state and territory housing departments seeking advice on projects that would be ready to be advanced quickly and that were consistent with HAF objectives. As a result, in June 2009, to increase program expenditure prior to the end of 2008–09, FaHCSIA proposed directly funding five public housing redevelopment projects through the HAF along the lines of one of the options previously recommended to the then Minister. On 23 June 2009, the department recommended, and the then Minister approved, funding for three of these projects totalling $24.4 million.

32. Funding these projects was inconsistent with the stated intention of the HAF as a competitive, merit-based grant program. Significantly, FaHCSIA did not assess the relative merits of the projects against the HAF's published selection criteria, including whether the proposals represented value for money, and did not assess the risks of funding these projects. FaHCSIA's submissions to the then Minister seeking approval to fund these projects outlined the basis for recommending that the projects be funded, including describing the intended outcomes of each project. However, not all of these benefits aligned with the stated purposes of the HAF. Further, FaHCSIA's submissions to the then Minister did not make it clear that funding these projects was not consistent with the assessment and selection process set out in the program's guidelines and communicated to potential applicants and other stakeholders.

33. It was open to FaHCSIA to examine other options to fund these public housing redevelopment projects, such as seeking the then Minister's approval to vary the program's published guidelines or to transfer the underspend in the HAF to another, more suitable, program. However, the department did not pursue either of these approaches; rather, it recommended funding projects which did not sit comfortably with the HAF's stated objectives.

The second HAF funding round (Chapter 3)

34. In August 2009, prior to the commencement of the second funding round, the Australian Government agreed that the then Minister for Housing would provide $175.3 million from the HAF to the Victorian Government to support three public housing redevelopment projects. The decision to fund these three projects from the HAF was made in the context that the Australian Government had announced an equivalent reduction in Victoria's allocation of funding from the Social Housing Initiative. In the context of the HAF, the Australian Government' decision was significant as the funds provided to the Victorian Government represent approximately 35 per cent of the total expenditure from the HAF.

35. FaHCSIA advised the then Minister that the department considered the projects were broadly consistent with the HAF's aims and that the projects aligned with the HAF's key selection criteria. The signed funding agreement does not stipulate the amount of savings required to be passed on to home buyers from these projects. FaHCSIA estimated that savings to be passed on to home buyers would be in the order of $10 million. In terms of the HAF's objective of reducing the cost of new homes, the amount of savings is very low compared with the level of funds provided, particularly as most other infrastructure projects funded from the HAF are required to pass on the full value of their funding to home buyers.

36. FaHCSIA redesigned several key elements of the HAF in response to the lessons of the first funding round, including updating the program's risk register, revising the selection criteria and adopting a single-stage application and assessment process. As was the case in the first funding round, the guidelines for the second funding round did not include information on whether FaHCSIA or the Minister had the discretion to waive or amend the selection criteria, or outline the circumstances in which this might occur. This omission was inconsistent with the requirements of the CGGs, which were promulgated before the round two guidelines were published.[16]

[16] Department of Finance and Deregulation, op. cit., p.29.

37. The second HAF funding round was also subject to inconsistent application of the published assessment criteria that had been provided to potential applicants. In determining the list of 49 applications that were recommended for funding in the second funding round, FaHCSIA moderated the ranking of applications to reflect a level of parity between states, the quantum of funding of particular states, and the mix of reform and infrastructure projects. Taking these factors into consideration during the assessment process was not consistent with the program guidelines, which stated that funding would not be allocated to specific states or local government areas; that all applications would be assessed against the selection criteria; and that funding would be awarded based on the merits of individual applications. As a result of the moderation, 14 projects, worth $111 million, initially ranked better than 49th were excluded from the list of recommended projects. While there was some rationale documented for excluding ten of these projects, primarily concerning risk, there was no such rationale for the remaining four projects. Further, although FaHCSIA had informed the then Minister that the initial application rankings had been moderated, the department's funding advice did not state that this course of action was inconsistent with the program's guidelines.

38. Neither of the two funding recommendations provided to the then Minister in the second funding round contained references to the requirements of the CGGs to which the Minister was required to have regard. It is expected that departments will include such information in funding recommendations. In particular, paragraph 3.23 of the CGGs requires that Ministers are advised about the requirements of the CGGs in cases where they exercise the role of financial approver.

39. In late March 2010, the then Minister approved eight of the 49 projects initially recommended by FaHCSIA.[17] The eight projects selected, worth $50 million, were not the highest-ranked projects. Rather, the Minister approved the top-ranked project in each state and territory (except Tasmania), as well as the third-ranked project in New South Wales. In this case, there was no evidence that FaHCSIA advised the then Minister of the importance of

[17] FaHCSIA subsequently recommended that the then Minister approve the 30 highest-ranked projects (from the initial list of 49) that the Minister had not approved on 29 March 2010. That funding recommendation outlined to the Minister that 11 of the 49 projects that the department had initially recommended were now unable to be funded as the Australian Government had decided to quarantine $51.9 million from the HAF to support the Council of Australian Governments' Housing Supply and Affordability Reform agenda.

recording the basis of her decision[18] to approve only eight of the 49 projects that the department had recommended. In cases where decision-makers agree with the funding recommendation prepared by a department, they are able, as long as they are satisfied that the department's assessment was conducted properly, to rely on the assessment as documenting the basis for their decisions. However, when decision-makers do not approve grants that have been recommended by a department it is good practice, particularly in a competitive, merit-based program, to invite decision-makers (including Ministers) to record the basis of their decision to promote transparency and accountability.[19]

Executing and managing funding agreements (Chapter 4)

40. For the most part, the funding agreements examined contained terms and conditions that were commensurate with the size and nature of the funded projects and that aligned with the objectives of the HAF. In particular, each funding agreement described the HAF's objectives; the funded project's goals; measures to assess the performance of the grantee; the payment structures adopted, including the amount and timing of each payment for the grant; and performance and financial acquittal reporting requirements. In most of the examined projects, the funding payment structures adopted, specifically the use of incremental payments to deliver funds rather than large, up-front payments, were appropriate given the risks of the projects and their extended delivery timeframes.

41. Some funding agreements did not clearly set out details of project outcomes in terms of the HAF's objectives. Specifically, the amount of savings required to be delivered is not quantified in two funding agreements relating to infrastructure projects. Rather, the funding agreements only describe the nature of the savings required to be delivered. Only one of the reform projects' funding agreements contains information on the number of dwellings expected to benefit, and only four of these funding agreements contain details of the savings required to be delivered. In addition, the frequency of reporting for some projects is low, with an average reporting period of greater than 12 months for some infrastructure projects. There was also considerable

18 An enhancement to the Australian Government's financial management framework on 1 July 2009 means that, as well as recording the terms of their approval (under Financial Management and Accountability Regulation 12), approvers of spending proposal relating to grants must record the basis of their decision.

19 Australian National Audit Office, *Implementing Better Practice Grants Administration*, Better Practice Guide, June 2010, pp.81-82.

variation in the reporting requirements established for reform projects, in particular, the extent to which reform projects are required to report on deliverables. Taken together, these issues mean that the level of savings to be passed on to home buyers is not clear for some projects. This increases the risk that the department will not be able to accurately assess the contribution individual projects make towards the achievement of the HAF's objectives.

42. FaHCSIA had processes in place for monitoring the progress of the approved projects, including delivery of performance reports against the reporting requirements contained in the funding agreements. For the most part, the performance reports for the examined projects were received in accordance with these reporting requirements. In addition, milestone information relating to the HAF was accurately maintained in FaHCSIA's online funding management system, although monitoring activity was not always timely.

43. Many of the examined projects were at a relatively early stage in terms of delivering on their expected outcomes. Only one of the infrastructure projects examined has fully met its contracted deliverables. By June 2011, a further four of the infrastructure projects examined were well advanced in terms of delivering the required infrastructure and savings. At the same time, none of the four reforms projects examined had been completed. Submitted performance reports indicate that three of these projects are proceeding in accordance with contracted targets. However, the remaining reform project has yet to deliver the level of savings expected.

Performance reporting (Chapter 5)

44. FaHCSIA developed and reported against a performance measure that was consistent with only one of the HAF's two objectives, delivering savings to home buyers. At the time that responsibility for the program was transferred to SEWPaC, FaHCSIA had not developed a measure of performance for the other objective, increasing the supply of new houses. SEWPaC's 2010–11 Portfolio Additional Estimates Statements and its 2011–12 Portfolio Budget Statements include performance indicators designed to address both of the HAF's objectives.

45. Prior to responsibility for administering the HAF passing to SEWPaC, FaHCSIA was collecting and analysing useful information about the implementation of the HAF, and distributing this information through management reports. These reports included a range of information on the financial performance and position of the program, such as data relating to the budget, expenditure and commitment levels, as well as information relating to the program's deliverables. These management reports indicate that by May 2011:

- 749 home buyers have received a total of $11.9 million in savings; and
- the construction of over 35 000 new homes was expected to be brought forward.

Summary of agencies' responses

46. FaHCSIA noted the findings of the report and accepted the recommendation that was directed to it. FaHCSIA's full response to the audit is included in Appendix 1.

47. SEWPaC provided the following summary response to the audit report:

> The Department of Sustainability, Environment, Water, Population and Communities (the department) accepts the key findings and recommendations of the ANAO report and considers that the report provides a constructive basis to strengthen the delivery and performance management of the Housing Affordability Fund.
>
> It is noted that whilst the audit is confined to the Department of Families, Housing, Community Services and Indigenous Affairs' administration of the program, the findings are consistent with the actions taken by the department to strengthen delivery and performance management and reporting arrangements since assuming responsibility for the program in October 2010.

48. SEWPaC agreed with the two recommendations in this report that were directed to it. SEWPaC's full response to the audit, which includes responses to these two recommendations, is included in Appendix 1.

Recommendations

Recommendations No.2 and No.3 have been directed to SEWPaC as the department now responsible for managing the performance of the funded projects against the terms and conditions of their respective funding agreements and reporting on the performance of the HAF against its stated objectives.

Recommendation No.1 (para 3.43)

In order to improve the quality of its grants funding advice to decision-makers (including Ministers), the ANAO recommends that FaHCSIA's future grants funding recommendations include:

(a) an overview of the approach used to assess the relative merits of the projects it has recommended (and not recommended) for funding, highlighting any departures from the arrangements set out in the program's guidelines; and

(b) the key requirements relating to the approval of grants contained in the Commonwealth Grant Guidelines.

FaHCSIA's response: Agreed.

Recommendation No.2 (para 4.29)

To strengthen performance management arrangements for the HAF, the ANAO recommends that SEWPaC seek to update funding agreements to include targets for the number of affected dwellings and the amount of savings to be delivered.

SEWPaC's response: Agreed.

Recommendation No.3 (para 4.51)

To improve performance reporting for the HAF, the ANAO recommends that SEWPaC review, and as necessary, seek to update the performance reporting requirements contained in funding agreements so that:

(a) the elapsed time between the submission of reports is no greater than twelve months; and

(b) details of progress towards project targets, including savings to home buyers, are regularly provided.

SEWPaC's response: Agreed.

Audit Findings

1. Introduction

This chapter describes the Housing Affordability Fund and the recent reforms to the Australian Government's grants administration legislative and policy framework, and outlines the audit objective and approach.

Housing affordability

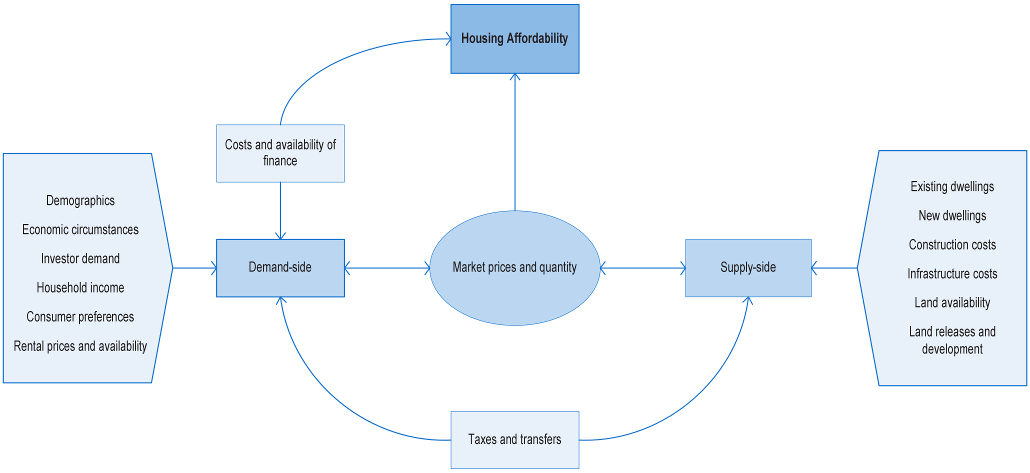
1.1 Housing quality is an important determinant of individual and family wellbeing. Good housing provides protection; access to essential services such as water, heating and sanitation; privacy; a place to keep possessions secure; a place to spend time with friends and family; and a means of expressing one's identity.[20] However, access to good housing can place significant demands on individual and family incomes if housing affordability is low.

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

[20] Australian Bureau of Statistics, *Topics @ a Glance – Housing.* Sourced from <http://www.abs.gov.au/websitedbs/c311215.nsf/20564c23f3183fdaca25672100813ef1/e14c6280be91d6b2ca257259000b25f0!OpenDocument> [Date accessed: 29 March 2011].

Figure 1.1

Factors influencing housing affordability



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

1.3 For many Australians, buying and maintaining a home involves considerable up-front investment, as well as substantial ongoing expenditure. In particular, housing-related costs often represent the single largest expense that people will make. In this regard, the Australian Bureau of Statistics (ABS) reports that housing costs accounted for around 19 per cent of gross household income (excluding home owners without a mortgage) between 1995–96 and 2007–08. The ABS also reported that housing costs represented more than 50 per cent of household income in nearly 8 per cent of households with a mortgage in 2007–08.[21]

1.4 When people struggle to pay for their housing, they are said to experience 'housing affordability stress'. Housing affordability stress can have serious consequences for individual and families, and if this stress is sufficiently prevalent, consequences can also be observed at local, regional and even national levels. At the household level, housing affordability stress has an adverse effect on household budgets, possibly resulting in an overall reduction in quality of life. More broadly, housing affordability can affect decisions about where to live and work, where (or whether) to invest in property, and overall

---

[21] Australian Bureau of Statistics, *Year Book Australia 2009–10 – Housing Costs*, June 2010. Sourced from <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/1301.0Chapter10012009%E2%80%9310> [Date accessed: 24 March 2011].

patterns of consumer spending and saving. House and rental price instability can drive overall economic volatility, and its effects can be felt across generational lines, widening existing socio-economic inequalities.[22]

1.5 A range of indicators consistently reflect progressively lower levels of housing affordability and higher levels of housing affordability stress in Australia over the past decade. While some factors, such as the recent mining boom or the global financial crisis, can have a short-term effect on housing markets, overall, the National Housing and Supply Council reported that rapidly rising house prices between 1996 and 2008 contributed to a significant decline in housing affordability in Australia. Further, the Council observed that the increasing shortfall in the supply of dwellings (when compared to underlying demand) continues to put pressure on house prices and rent levels.[23]

1.6 Other publicly available data also highlights declining levels of housing affordability in Australia. Specifically:

- the ABS reports that the proportion of homes sold that were affordable to low and moderate income households declined from 51 per cent in 2003–04 to 34 per cent in 2007–08;[24]
- the Housing Industry Association (HIA) reports that the *HIA-Commonwealth Bank Housing Affordability Index* in December 2010 was nearly 25 per cent lower than it was in March 2009, and was about 10 per cent below its December 2005 level. The HIA also noted that the index had improved (by 3.6 per cent) for the first time since March 2009 in the September 2010 quarter, but had declined again (by 1.8 per cent) in the December 2010 quarter;[25] and
- in its Housing Affordability report for the December 2010 quarter, the Real Estate Institute of Australia (REIA) reported that housing

22 Australian Housing and Urban Research Institute, *Housing affordability and the economy: A review of macroeconomic impacts and policy issues*, August 2006, pp. ii-iv. Sourced from <http://www.ahuri.edu.au/publications/download/nrv3_research_paper_5 > [Date accessed: 16 August 2011].

23 National Housing Supply Council, *Second State of Supply Report*, April 2010, pp. 94–100.

24 Australian Bureau of Statistics, *Measuring Australia's Progress 2010 – Housing*. September 2010. Sourced from <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1370.0~2010~Chapter~Housing%20affordability%20for%20home%20buyers%20(5.4.4)> [Date accessed: 24 March 2011].

25 Housing Industry Association, *Housing Affordability Suffers Heavy Fall over Year to September*, November 2010 and *Rate Hikes Hit Housing Affordability*, February 2011. Sourced from <http://hia.com.au/Latest%20News/Article.aspx> [Date accessed: 24 March 2011].

affordability in Australia had declined by 4.6 per cent over the previous 12 months. The REIA noted that this result meant that it had recorded eight consecutive quarterly reductions in housing affordability in Australia.[26]

The Housing Affordability Fund

1.7 Given the range and seriousness of the consequences of housing affordability stress for citizens and for the economy, the Australian Government has put in place several initiatives and programs designed to help households to pay for housing and to increase the supply of affordable housing.[27] One of these initiatives, the Housing Affordability Fund (HAF), was launched on 15 September 2008 by the then Prime Minister and the then Minister for Housing. The objectives of the HAF are to increase the supply and reduce the cost of new homes by:

- reducing the cost of infrastructure works associated with housing developments, including connection of essential services (such as water, sewerage, and roads), construction of community facilities and open spaces (such as playgrounds), and undertaking site remediation works—referred to as infrastructure projects; and
- encouraging best practice in state and local government housing development assessment and planning processes, including speeding up development assessment and approval processes to help reduce 'holding' costs to developers—referred to as reform projects.

1.8 The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) was responsible for the implementation and administration of the HAF until the Administrative Arrangements Order of 14 September 2010 transferred responsibility for the program to the newly created Department of Sustainability, Environment, Water, Population and Communities (SEWPaC). The effective transfer of responsibility for the

---

26 Real Estate Institute of Australia, *Affordability reaches a new low in Australia*, March 2011, and *Decline in housing affordability relentless*, September 2010. *Sourced from* <*http://www.reia.com.au/real-estate-media-release.php?pid=1*> [Date accessed: 5 April 2011].

27 A summary of the Australian Government's key housing assistance programs and measures can be found at the following address: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/B0C2505F4DC09802CA25773700169C7F?opendocument> [Date accessed: 15 June 2011].

program between the two departments, including the associated resources, occurred on 28 October 2010.

1.9 A key element in the design of the HAF was that the reductions in housing development costs associated with infrastructure projects were to be passed on to home buyers in the form of a rebate (or savings) against the market price of a certain number of new houses. To give practical effect to this policy intent, proposals for infrastructure funding were required to quantify the number of new houses that were expected to be constructed, the number of newly constructed houses to be sold at a reduced price (that is, those houses attracting savings), as well as the amount of savings that were to be passed on to buyers. In turn, funding agreements for infrastructure projects were designed to include mechanisms to measure the construction and sale of the new houses and the delivery of savings to the home buyers.[28]

1.10 According to the HAF's guidelines, funding from the HAF was to be made available through competitive application and assessment funding rounds. These funding rounds were open to local governments (or local government associations) and to state and territory government agencies. Private companies, including property developers, were encouraged to participate in the HAF by entering into partnership arrangements with government.

1.11 Through the HAF the Australian Government planned to make available $500 million (plus $12 million to administer the scheme) over the five year period from 2008–09 to 2012–13. The intended uses of HAF funds, as outlined in the program's published guidelines, are shown in Appendix 2. Details of the amount and nature of funding committed from the HAF by September 2010 are shown in Table 1.1.

---

28 These mechanisms included listing the number of dwellings to be constructed and the number required to be sold at a reduced price; listing the amount of the reduction (or savings) required to be passed on to home buyers; requiring the gross selling price of each home (that is, before the required reduction) to be determined by independent registered valuers; and defining the categories of eligible purchasers (home buyers).

Table 1.1

Details of committed HAF funding

Type of project	Number of approved projects	Funding committed ($'m)	Average value of grant ($'m)	Proportion of total committed funds (%)
Infrastructure[A]	39	142.6	3.7	31.9
Reform	14	31.3	2.2	7.0
Combined	9	60.1	6.7	13.4
Public housing redevelopment	4	183.8	46.0	41.1
Electronic development applications	9	29.6	3.3	6.6
Total	**75**	**447.4**	**5.9**	**100.0**

Note A: This table does not include one infrastructure project (worth $0.2 million) that was approved in April 2009 but which was withdrawn from the program in July 2010. The funding agreement was terminated and the funding repaid to the Australian Government.

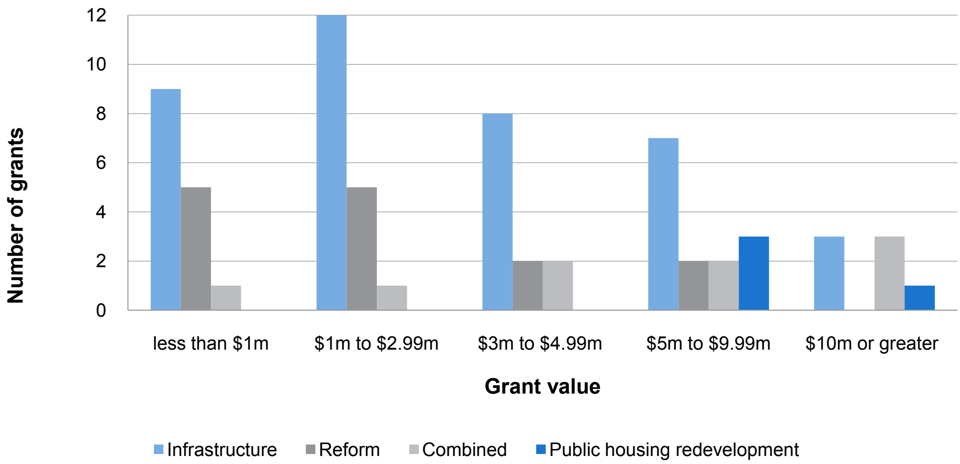
Source: ANAO analysis, based on departmental records.

1.12 The individual value of the 66 grants included in the scope of this audit[29] ranges from $80 000 to $159.4 million. As illustrated in Figure 1.2, 59 (nearly 90 per cent) of the approved grants were for amounts less than $10 million. In total, these 59 grants represented 41 per cent of the total funding committed from the HAF. The single largest approved grant of $159.4 million represents approximately 35 per cent of the total funds made available from the HAF.

[29] The nine projects associated with the development and implementation of an electronic development applications system and associated online tracking system were not included within the scope of this audit.

Figure 1.2

Range of approved grants



Source: ANAO analysis, based on FaHCSIA records.

The funding pathways

1.13 Funding for the 66 projects included in the scope of this audit was approved from the HAF through one of four funding pathways. The 62 infrastructure, reform or combined projects were funded through the two competitive, merit-based funding rounds (24 in the first funding round, worth $64.7 million, and 38 in the second funding round, worth $169.3 million). Three public housing redevelopment projects, worth $24.4 million, were directly funded at the end of the first funding round to address a surplus of program funds in 2008–09.[30] None of the proponents had sought funding from the HAF for these projects through the first funding round application process. The remaining public housing redevelopment project, worth $159.4 million, was funded prior to the start of the second funding round. This funding was provided as a result of the Australian Government's decision of August 2009 that the then Minister for Housing would provide funds from the HAF to the Victorian Government to support three[31] public housing redevelopment projects. The Australian Government's decision to fund these projects from the HAF was made in the context that the then Minister for Housing would also

[30] These projects are located in New South Wales, South Australia and Tasmania.

[31] The three projects are located in Fitzroy, Prahran and Richmond, suburbs of Melbourne. The three projects were bundled together and funded as one HAF project.

reduce Victoria's allocation of funding from the Australian Government's Social Housing Initiative[32] by an equivalent amount. These projects had previously been proposed under stage two of the Social Housing Initiative, but had not been approved at the time.

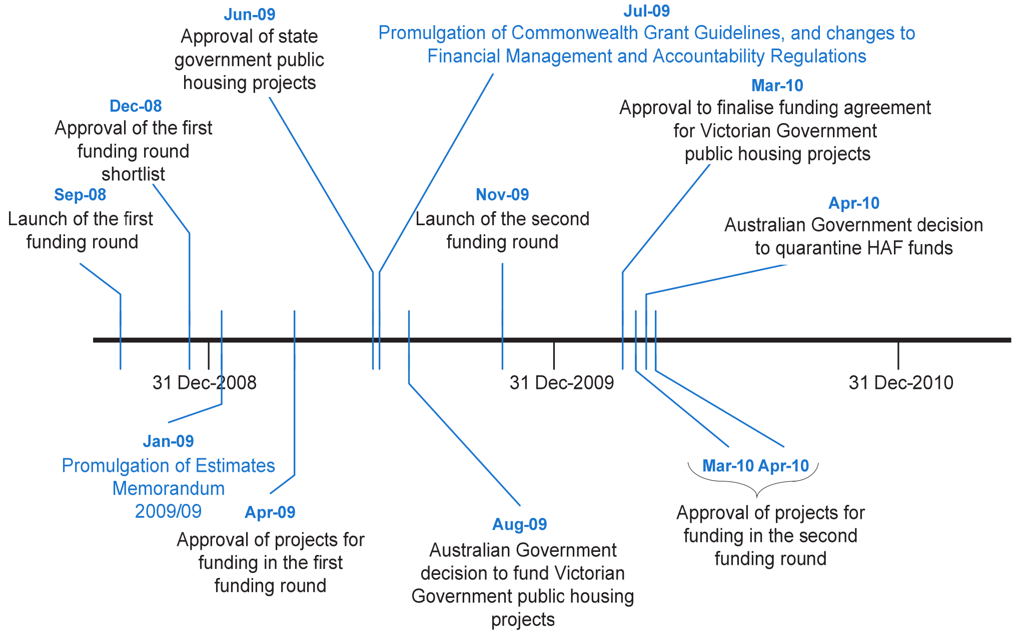
1.14 Figure 1.3 provides an overview of the key events in the administration of the HAF's two funding rounds. Figure 1.3 also shows the two reforms to the Australian Government's grants administration framework[33] that occurred during the HAF's two funding rounds.

32 The Social Housing Initiative was announced in February 2009 as part of the *Nation Building Economic Stimulus Plan*. The initiative is designed to assist low-income Australians who are homeless or struggling in the private rental market by providing funding of $5.6 billion (in two stages) for the construction of new social housing and a further $400 million for repairs and maintenance to existing social housing dwellings.

33 Appendix 3 contains an outline of the development of the Australian Government's grants administration framework.

Figure 1.3

Key dates in the HAF's two funding rounds, including enhancements to the Australian Government's grants administration framework



Source: ANAO analysis.

The reforms to the Australian Government's grants administration framework during the HAF's two funding rounds

1.15 Estimates Memorandum (EM) 2009/09, which was issued by the Finance Minister on 16 January 2009, set out a range of requirements relating to grant approval and reporting. This included the requirements that:

- Ministers should not approve grants without first receiving departmental or agency advice on the merits of the proposed grant;
- agencies are required to publish details of individual grants on their website; and
- Ministers must record the basis of their approval of grants in certain circumstances, including awarding grants that the relevant department or agency has recommended be rejected.

1.16 The Commonwealth Grant Guidelines (CGGs), which were promulgated in July 2009, set out the Australian Government's broad policy framework relating to grants administration within which agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) are to determine their own specific practices.[34] The CGGs are in two parts:

- Part One outlines the legislative and policy requirements relating to grants administration, incorporating the requirements contained in EM 2009/09; and
- Part Two outlines seven principles for grants administration and provides guidance on sound practices within each of these principles.

1.17 The mandatory requirements and the principles contained in the CGGs are shown in Appendix 3.

1.18 The requirements in Part 4 of the *Financial Management and Accountability Regulations 1997* (FMA Regulations) relating to the spending of public money were amended on 1 July 2009 to include the following grants-specific requirements:

- Regulation 3A—defines the characteristics for a payment to be considered a grant;
- Regulation 7A—provides that the Finance Minister may issue guidelines (the CGGs) relating to grants administration and stipulates that officials performing duties in relation to grants administration must act in accordance with the CGGs; and
- Regulation 12(1)(b)—requires, for spending proposals relating to grants, that approvers record the basis on which they are satisfied that the spending proposal complies with Regulation 9.

Audit objective and approach

1.19 The objective of the audit was to assess the effectiveness of FaHCSIA's administration of the HAF. To address this objective, the Australian National Audit Office (ANAO) assessed FaHCSIA's administration against a range of audit criteria, including the extent to which:

- assessment and approval processes were soundly planned and implemented, and were consistent with requirements of the overarching financial management framework;

[34] Department of Finance and Deregulation, *Commonwealth Grant Guidelines – Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p.2.

- appropriately structured funding agreements were established and managed for each approved grant; and
- the performance of the HAF, including each of the funded projects, was actively monitored and reported.

1.20 The key audit criteria for each of these elements are set out in the following chapters of this report. In order to assess whether practices and controls were in place and operating as intended, the ANAO interviewed FaHCSIA staff and completed qualitative and quantitative analysis of information, files, records and management reports. In particular, a detailed examination was undertaken of records relating to:

- 11 of the 46 projects approved for funding in the two competitive funding rounds that had a signed funding agreement in place at the start of the audit; and
- the four public housing redevelopment projects that were funded from the program.

1.21 Details of these 15 projects examined in detail are shown in Appendix 4. These projects represent approximately 75 per cent of the value of the projects approved that had a signed funding agreement in place at the start of the audit. Specifically, for each of these 15 projects the ANAO examined:

- the department's assessment of the application or proposal for funding, including risk assessments;
- the form and content of the project's funding agreement;
- the timing and amount of payments made; and
- the performance reports provided by the project proponent, including the department's monitoring and assessment of the project's progress and performance.

1.22 The audit findings discussed in this report are based on the review of the systems and processes in place at FaHCSIA, and the decisions made by FaHCSIA. The audit did not examine the transfer of resources from FaHCSIA to SEWPaC following the Administrative Arrangements Order of 14 September 2010, nor did it assess the systems and processes used by SEWPaC. However, some fieldwork was undertaken at SEWPaC in order to obtain:

- an understanding of initiatives put in place by SEWPaC to administer the HAF since the transfer of responsibility; and
- more up-to-date information on the progress of the 15 examined projects and on key financial data about the HAF.

1.23 The ANAO sent a questionnaire to the proponents of each of the examined projects in order to gauge their views on a range of issues relating to FaHCSIA's administration of the HAF. This included views on the processes relating to applications that were not successful in obtaining funding. Twelve responses were received to the questionnaire, representing an 80 per cent response rate. Further analysis of the responses and comments provided is contained throughout this report.

1.24 The audit also included visits to the project sites for four of the examined projects. During these visits the ANAO met with the respective project managers, confirmed the status of each project, toured the project site and, as appropriate, examined relevant records.

1.25 The audit was conducted under section 18 of the *Auditor-General Act 1997* and in accordance with the ANAO Auditing Standards at an approximate cost of $347 000. In September 2011, pursuant to section 19 of the Act, a copy of the proposed audit report was issued to both FaHCSIA and SEWPaC, and to the Minister previously responsible for funding decisions made under the HAF. As appropriate, written comments have been incorporated in the final report and all formal comments on the proposed report have been reproduced in Appendix 1.

Structure of the report

1.26 Table 1.2 shows the structure of this report.

Table 1.2

Structure of audit report

Chapter	Purpose
Chapter 2—the first HAF funding round	Examines FaHCSIA's administration of the first HAF funding round, including the processes associated with the decision to fund three state government public housing redevelopment projects in June 2009.
Chapter 3—the second HAF funding found	Examines FaHCSIA's administration of the second HAF funding round, including the processes associated with the decision to fund the Victorian Government public housing redevelopment project.
Chapter 4—executing and managing funding agreements	Examines FaHCSIA's arrangements for implementing and managing funding agreements for each approved project, including monitoring the progress and performance of the projects.
Chapter 5—performance reporting	Examines FaHCSIA's processes for monitoring and reporting the performance of the HAF.

Source: ANAO.

2. The First HAF Funding Round

This chapter examines FaHCSIA's administration of the first HAF funding round, including the processes associated with the decision to fund three state government public housing redevelopment projects in June 2009.

Introduction

2.1 A key principle of effective grants administration is that the expenditure of public funds achieves value for money when considered in the context of the Australian Government's objectives for the grant program. An important consideration in achieving value for money in a competitive, merit-based grant program is the careful design of the application, assessment and selection processes, including the criteria against which the relative merits of applications are appraised. Well-designed processes can contribute to better outcomes by:

- promoting and helping to preserve equity and fairness in the treatment of prospective and actual applicants for funding;
- providing greater certainty to prospective applicants;
- helping to attract higher-quality applications, including proposals that are more likely to contribute to the achievement of a grant program's objectives;
- enabling more informed comparisons of the relative strengths (and weaknesses) of proposals; and
- fostering more transparent and accountable analysis and decision-making.

The first funding round

2.2 The first funding round for the HAF was launched in September 2008, and involved a two-stage application and assessment process. The first stage involved applicants submitting an expression of interest (EOI), and the second stage involved shortlisted applicants submitting more detailed business cases. The first round was promoted widely. Advertisements were placed in all major metropolitan newspapers, as well as in a wide selection of regional newspapers. These newspaper advertisements advised potential applicants and other interested parties to visit FaHCSIA's website in order to obtain an application kit and further information about how to apply for funding.

FaHCSIA also undertook a series of targeted promotional activities, which included writing to a range of stakeholders about the HAF and providing them with a copy of the program's guidelines and an application form.

Assessing the EOIs

2.3 FaHCSIA received a total of 97 EOIs (worth $357 million), of which 21 (worth $107.8 million) were assessed as non-compliant. The relative merits of the remaining 76 EOIs (worth $249.2 million) were assessed and ranked. From this ranking, the department recommended, and the then Minister for Housing approved, a shortlist of 33 proposals (worth $112.1 million) to proceed to the second stage, the submission of a business case.

2.4 The cut-off point for the 76 ranked applications used in determining the shortlisted proposals was not based on the relative merits of the proposals. Rather, the cut-off point was based on the amount of funds available for expenditure in 2008–09. While linking the number of proposals that were invited to present a business case with the level of funds available minimised the risk of FaHCSIA over spending the HAF's funds, it also increased the risk that applicants with merit were not offered the opportunity to expand on their initial proposals. As an alternative, the department could have used the relative merits of the 76 ranked proposals as the basis of the cut-off point for determining the shortlist of applicants. The funding available could then have been used as a threshold to determine the number of successful projects following the assessment of business cases.

Assessing business cases

2.5 In December 2008, the proponents of the 33 shortlisted proposals were asked to confirm the parameters previously submitted in their EOIs, and to provide additional information in the form of a business case. Following assessment of the business cases, FaHCSIA recommended to the then Minister a total of 30 proposals (worth $85.4 million) should be funded. Subsequently, due to concerns identified during the negotiation of the funding agreement, the department recommended that the funding offers made to four projects (worth $11.2 million) should be rescinded. The then Minister approved each of FaHCSIA's recommendations. FaHCSIA also subsequently withdrew the funding offer made to another project (worth $10 million) when the proponent advised that the project was unable to proceed.

2.6 To assess the effectiveness of the processes associated with the implementation and administration of the HAF during the first funding round, the ANAO examined whether FaHCSIA had:

- assessed and was monitoring the risks that the department might encounter;
- developed and disseminated informative grant guidelines;
- established sound selection criteria;
- executed a well-designed application assessment process;
- prepared clear and informative funding recommendations to the then Minister for Housing that were consistent with the outcomes of application assessment processes; and
- ensured that funding approvals aligned with the requirements in Part 4 of the *Financial Management and Accountability Regulations 1997* (FMA Regulations).

Managing risks

2.7 Agencies should adopt a structured approach to identify, assess, treat and monitor the likelihood and consequence of risks associated with the administration of grant programs. Risk management processes associated with the administration of grant programs must address factors at two levels: firstly, factors associated with the implementation and management of the overall grant program; and secondly, factors relating to individual project proposals and grant recipients.[35]

2.8 FaHCSIA developed a risk management plan for the administration of the HAF during the first funding round. The plan set out the responsibilities and processes to be adopted for the identification, evaluation, monitoring and reporting of risks associated with the HAF. The plan also stated that risks (both identified and new or emerging risks) should be regularly monitored and that a monthly HAF project risk report was to be developed and provided to the department's Executive and other key stakeholders (although these stakeholders were not identified).

2.9 Thirteen potential risks were identified during the first funding round. Seven of these risks were rated medium and six were rated high. For each risk, the consequences of the risk event were described, as well as the existing controls to help address the event. The attendant risk treatment plan was

---

[35] The consideration of risks as part of the assessment of individual proposals for funding is discussed at paragraphs 2.35 to 2.40.

meant to describe the treatments proposed to address each risk, including the responsible officer, the implementation timetable and the monitoring dates. However, the version of the treatment plan supplied to ANAO was incomplete as it did not contain any of this information.

2.10 The risks contained in the first funding round risk register typically concerned higher-level or strategic issues. For example:

- eight of the risks related to factors associated with the implementation of the program;
- three of the risks related to the overall management of the performance of the program; and
- two of the risks related to high-level operational matters, including meeting financial accountability requirements.

2.11 FaHCSIA did not formally monitor whether these 13 identified risks were being effectively managed or whether other risk factors had emerged. While the initial focus on strategic issues coincided with the implementation stage, it is expected that other relevant operational risk issues would also have been identified and assessed as the first funding round progressed. Such risks could have included, for example, risks associated with the selection and assessment processes, the establishment of funding agreements, and the monitoring of each approved projects' progress or performance. FaHCSIA advised the ANAO that potential risks to the successful implementation of the HAF, including risks of an operational nature, were assessed in the course of the preparation of quarterly reports on the status of the implementation of its Housing Affordability programs.[36]

The HAF guidelines

2.12 A grant program's guidelines can make an important contribution to the effective administration of the program. Determining the appropriate level and nature of the content of grant guidelines will vary depending on the size, scope and nature of the grant program. The ANAO's grants administration Better Practice Guide (BPG) indicates that grant guidelines should address those matters necessary to promote transparent and equitable access to grants, while at the same time assisting potential applicants. Specifically, the BPG

[36] These reports were prepared for submission to the Cabinet Implementation Unit in the Department of the Prime Minister and Cabinet.

identifies a series of common information elements that grant guidelines should address.[37]

2.13 As shown in Table 2.1, the guidelines developed for the first funding round generally aligned with the information elements set out in the BPG. The two information elements not included in the guidelines were:

- information on the whether FaHCSIA or the Minister had any discretion to waive the selection criteria—this is discussed further at paragraph 2.21; and
- details of the proposed funding terms and conditions—the guidelines indicated that the terms and conditions governing grant funding would be set out in funding agreements with each proponent.

2.14 As discussed in Chapter 4, the absence of information on the proposed terms and conditions contributed, in part, to the delays subsequently encountered in finalising some of the funding agreements in the first funding round (see paragraph 4.9). FaHCSIA advised that the proposed terms and conditions were not included in the guidelines as the Government required the guidelines to be issued urgently. FaHCSIA also advised that the proposed terms and conditions were placed on its website prior to the close of the application period.

37 ANAO, *Implementing Better Practice Grants Administration*, Better Practice Guide, June 2010, p.59. While the BPG was published after the guidelines for the first funding round were published, the information elements contained in the guide represent well-established principles that are applicable to any grants program.

Table 2.1

Analysis of the HAF Guidelines in the first funding round

Information element from the ANAO's grants administration BPG	Contained in guidelines
Program's purpose, objectives and desired outcomes	✔✔
Total level of funding available, including any limits on amounts available to each applicant	✔✔
Types of projects that will (and will not) be funded	✔✔
Types of bodies that are eligible (and ineligible)	✔✔
The governance arrangements that apply for the program's administration, including details of the respective roles and responsibilities of the Minister and agency officials	✔✔
Process by which eligible bodies are to apply, including details of the information required to be supplied and the application deadline	✔✔
Process to assess applications, including details of the selection criteria to be used	✔✔
Whether there is any discretion for waiving or amending the selection criteria during the assessment process and, if so, how it will be exercised	✗
Review or appeal mechanisms available to unsuccessful applicants	✔✔
Terms and conditions that will apply to grants, including the reporting and other accountability arrangements	✗

Key: ✔✔ information contained in the guidelines; ✗ information not contained in the guidelines.

Source: ANAO analysis.

The HAF selection criteria

2.15 Previous ANAO audits of grant programs have emphasised that having soundly designed selection criteria, and selecting applicants that demonstrably meet those selection criteria, is more likely to lead to successful outcomes in terms of the grant program's objectives. The selection criteria used in a competitive grant program typically fall into the following two categories:

- mandatory or threshold criteria—the criteria that must be satisfied by applicants in order for an application to be eligible for funding; and

- assessment or weighted criteria—the basis for determining the relative value or merits of each of the eligible applications in the context of the program's stated objectives.[38]

Mandatory criteria

2.16 The mandatory selection criteria set out in the first funding round guidelines were:

- compliance with existing Commonwealth, state and territory and local government regulations—proposals needed to be consistent with relevant regional strategic plans, affordability targets, accessibility requirements, planned sequencing and environmental requirements;
- future viability—funds from the HAF were not designed to cover the costs of future maintenance or upgrades and grant recipients were required to accept liability for such expenses; and
- leading practice—for infrastructure-only proposals, applicants were required to demonstrate they had already undertaken significant reform or had leading practices in planning and development assessments processes in place.

2.17 In addition, the guidelines included several eligibility criteria that, while not specifically identified as such, were effectively mandatory:

- applications would generally only be accepted from an eligible organisation (listed as local governments, local government associations or state and territory government departments);
- the development was required to start in 2008–09; and
- 30 per cent of the funding was required to be scheduled to be paid in 2008–09.

2.18 During the first funding round, FaHCSIA sought independent probity advice in relation to the application of two of these additional requirements. Specifically, the probity advisor was asked to consider whether proposals should be:

- accepted from private sector bodies; and

[38] ibid., p.62.

- excluded if the project did not achieve at least 30 per cent expenditure in 2008–09.

2.19 The probity advisor noted that, unlike the guidelines, the application form did not contain the term 'generally' in the description of the eligible organisations. The probity advisor considered that this difference between the guidelines and the application form had created 'a degree of ambiguity regarding the eligibility of the private sector to apply for HAF funding'. In this regard, the probity advisor noted that the draft guidelines had been altered (to include the term 'generally') and, as a result, created the inconsistency with the application form. The probity advisor recommended that the word 'generally' should be interpreted broadly, and that applications from the private sector should be accepted (as eligible) if applicants had the written support of a state or territory government agency or local government body.

2.20 In relation to the criterion for at least 30 per cent of expenditure in 2008–09, the probity advisor commented that a strict interpretation of the guidelines would exclude a significant number of applications that were worthy of further consideration. Accordingly, the probity advisor recommended that the department consider applications that had any degree of expenditure scheduled to occur in 2008–09.

2.21 FaHCSIA's acceptance of the probity advice in relation to these two matters effectively resulted in changes to the published mandatory criteria. As mentioned at paragraph 2.13, the guidelines in the first funding round did not contain any details about whether the department had the discretion to waive or amend the selection criteria, nor the circumstances in which this may occur. In this case, better practice suggests that when such amendments occur, they should be fully documented and authorised, including by the relevant Minister where that is appropriate. In addition, the amendment should be fully disclosed. If information about amendments to published selection criteria is not provided to interested parties, departments can undermine the transparency and equality of a grant program, and can also detract from the achievement of the program's objectives.[39]

2.22 A more transparent and fair approach would have been to inform actual and prospective applicants and other key stakeholders about the changes by, for example, republishing the grant guidelines. Further, as it is

[39] ibid., p.72.

reasonable to assume that applicants had acted on the previously published criteria, it may have been prudent for FaHCSIA to re-open the funding round. That is, there may have been potential applicants that chose not to apply because either they were uncertain about their eligibility, or they could not meet the original requirements.

The weighted criteria

2.23 The weighted selection criteria set out in the first funding round guidelines were:

- value for money—the most heavily weighted of the four criteria, measured by:
  - the reduction in the market prices of dwellings;
  - the proportion of funding passed on to home buyers; and
  - the amount of additional discount to home buyers from other sources;
- high demand for new dwellings—assessed through the annual growth rate and the projected shortfall of houses within an area;
- more affordable homes—assessed in terms of proposed dwelling prices and affordability for average income earners; and
- accessibility and sustainability—measured by the proposal's:
  - proximity to transport, employment and other services;
  - level of accessibility to people with disabilities; and
  - social, economic and environmental impacts.

2.24 In addition to these criteria, the guidelines stated that EOIs would be assessed against the risks of delivering the proposal, including the likelihood of the project succeeding and the likelihood of savings being passed on to home buyers.

Assessing the selection criteria

2.25 The sufficiency and appropriateness of the selection criteria for any given grant program will depend on the size and nature of that program. In this regard, the ANAO's grants administration BPG recognises that there are some common characteristics of sound selection criteria.[40] As shown in Table 2.2, the selection criteria contained in the first funding round guidelines generally possessed these characteristics.

Table 2.2

Assessment of the selection criteria in the first funding round

Characteristic	Result	Comment
Outcomes-focused and aligned with policy objectives	✓	The criteria did not explicitly measure the relative merits of each proposal in terms of the stated objective of increasing the speed of the supply of new houses.
Promote additionality [A]	✓✓	By focusing on value for money, and in particular the measurement of the additional discount to the home buyer, round one adequately promotes additionality.
Comprehensive	✓✓	The set of criteria was assessed to be comprehensive.
Clarity	✓	The meaning of the word 'generally' in the criterion relating to eligible organisations was not clear. It was also inconsistent with the application form which did not use the term 'generally' when describing the three categories of eligible applicants.
Objectively assessable	✓	The several components of the accessibility and sustainability criterion were difficult to objectively assess.
Internally consistent	✓✓	The criteria are internally consistent.

Key: ✓✓criteria meets characteristic; ✓criteria partly meets characteristic.

Note A: Whether the project will result in an outcome that is additional to the outcome likely to occur regardless of whether the application is successful.

Source: ANAO analysis.

[40] ibid., p.62. While the BPG was published after the HAF selection criteria in the first funding round were established, the characteristics contained in the guide represent well-established principles that are applicable to any grants program.

Assessment of applications in the first funding round

2.26 An important element in the effective administration of grant programs is the assessment of the applications received. In particular, the assessment process should be timely and involve a level of analysis and due diligence that reflects the selection criteria set out in the program's guidelines, and is commensurate to the size, nature and risk of the program.

The assessment tool

2.27 FaHCSIA engaged an external firm to develop an electronic tool to help the department assess proposals in the first funding round. The department advised the ANAO that the tool was required to determine a score (or rating) for each proposal that was based on the proposal's relative merits, especially in terms of the selection criteria contained in the first funding round guidelines.

2.28 In order to assess the integrity and reliability of the assessment tool, the ANAO examined whether the tool was logically designed, contained appropriate control features, and undertook calculations as expected. The ANAO also examined whether FaHCSIA put in place adequate arrangements over the use of the tool, including maintaining appropriate version control.

Design features

2.29 As shown in Figure 2.1, the assessment tool's calculation of each proposal's merit score involved five key steps.

Figure 2.1

Key steps in calculating a proposal's merit score in the first funding round

Step 1: Input score determined for 12 measures

The input scores for 10 of the measures we calculated by the tool on the basis of information obtained from the proposal's application form. The input scores for the remaining two measures were based on FaHCSIA's assessment of the proposal's risks—approval risk (measure 11) and affordable housing delivery risk (measure 12).

↓

Step 2: 1st weighted score calculated for each of the 12 measures

The 1st weighted score for each of the 12 measures was determined based on the relative value of each measure's input score calculated in step 1, using a series of look-up tables.

↓

Step 3: 2nd weighted score calculated for eight measures

For five of the 12 measures, the 1st weighted score calculated in step 2 became the measure's 2nd weighted score. For the remaining seven measures, the following adjustments were made to the 1st weighted scores determined in step 2, to calculate the remaining three 2nd weighted scores:

- measure one (profit) was adjusted by the proposal's 1st weighted risk score (sum of measures 11 and 12);
- measures six and seven (affordability) were combined; and
- measures four and five (demand) were combined.

↓

Step 4: 3rd weighted score for each of the eight measures

The 3rd weighted scores for each of the eight measures were determined by adjusting the measures' 2nd weighted scores that were determined in step 3 by a factor (called the swing weight) that represented the relative importance of each measures

↓

Step 5: Calculate the total weighted merit score

The overall merit score for each proposal was determined by the addition of the 3rd weighted scores for each of the eight measures that were calculated in step 4.

Source: ANAO, based on FaHCSIA documentation.

2.30 Overall, the broad design of the assessment tool was sound. In particular, the key measures included in the tool aligned with the selection criteria published in the first funding round guidelines. Further, the relative weightings assigned to these key measures were consistent with the description of the importance of each weighted criterion contained in the first funding round application form. However, the relative strengths of the tool's design were undermined by shortcomings in the subsequent implementation of the tool. In addition, the reasons for changes to the risk weightings contained in the tool were not documented, and the tool contained several systemic formulaic errors.

Implementing the tool

2.31 There was a lack of effective control over the tool's implementation and use, including a lack of formula protection,[41] version control, input data verification, and structured testing. There was no evidence that FaHCSIA undertook any formal quality review processes to gain assurance that the tool was operating correctly and performing as expected. Further, there was no formal acceptance or sign off of the tool before it was implemented. In light of FaHCSIA's accountability for the administration of the HAF, putting such controls in place during the implementation of the tool was important.

2.32 The developer of the tool had recommended that the tool be tested using a range of potential funding scenarios prior to being used. FaHCSIA advised the ANAO that the department conducted tests on the tool prior to the first funding round application process, and again using data contained in submitted applications. FaHCSIA also advised the ANAO that, while some of the matters identified during testing related to the performance of formulas, many of the issues related to ensuring the tool delivered the required policy outcomes. However, there is no evidence that testing was undertaken or of the results achieved.

2.33 The developer of the tool provided FaHCSIA with a report containing a description of the tool's main features, including:

- a list of the fields requiring user input, with a reference to the relevant question numbers in the application form;
- an explanation of the key measures, including the calculations performed by the tool for each key measure; and
- an outline of the outputs produced by the tool, including an explanation of the difference between the three weighted scores.

41 Without such protection, inadvertent or deliberate changes to data or formulas may occur.

2.34 No specific training on the use of the tool was provided to assessors. This was a significant gap given the complexity of the tool, as illustrated in Figure 2.1. The importance of training is further demonstrated by the fact that some of the anomalies observed were driven by incorrectly entered data and an apparent lack of review and understanding of the outputs produced by the tool. In this regard, the ANAO observed a number of the results among the input scores for the 12 key measures that were unusual and warranted further investigation. These included:

- eight instances where the average price of dwellings was estimated to increase—that is, the estimated savings to home buyers were negative;
- two instances of the estimated average savings per dwelling being equal to the estimated market value of dwellings—that is, the estimated savings to home buyers were 100 per cent of the cost of the house; and
- three instances of very large projected shortfalls in dwelling supply compared to estimated dwelling demand, including one shortfall greater than 7000 per cent.

Undocumented changes to risk weightings

2.35 FaHCSIA engaged an external firm to conduct the risk assessment on each compliant application that the department received. Specifically, the firm assessed and rated each application's:

- approval risk—the risk of the project not being approved by relevant planning authorities, or not proceeding due to insufficient finances; and
- affordable housing delivery risk—the risk that the savings generated would not flow through to the homebuyer or that moderately priced homes would not be delivered.

2.36 The firm used a risk matrix to provide a structured basis for determining the level of risk for each of the risk factors. Generally, the characteristics or elements considered for each risk rating were clear and objective.

2.37 The ratings for each risk factor were entered into the assessment tool (measures 11 and 12) and allocated a weighting. According to the assessment tool's documentation, the risk weightings were designed to range from zero (low risk) up to 25 per cent (very high risk) for each risk factor. However, the version of the tool that was used by the department to assess proposals contained weightings that ranged from zero (low risk) up to 100 per cent (very high risk) for each risk factor. As shown in Table 2.3, except for a risk rating of low, this change meant that the weighted scores used by the tool were four times greater than had been initially proposed.

Table 2.3

Changes in risk weightings

Risk rating for each factor	Weighted score designed for each of the two risk factors (%)	Actual weighted score used for each of the two risk factors (%)
Low	0	0
Low-medium	5	20
Medium	10	40
Medium-high	15	60
High	20	80
Very high	25	100

Source: ANAO analysis.

2.38 The sum of the weighted scores for each of the two risk factors was known as the proposal's weighted risk score. As shown in Figure 2.1, the assessment tool adjusted each proposal's weighted profit score (measure one) by the amount of the proposal's weighted risk score. The impact of the changes in the risk weightings on this calculation is illustrated in Table 2.4.

Table 2.4

Illustration of impact of changes in risk weightings on adjusted profit score

Measure/Score	Input score	Weighted score (as designed)	Weighted score (used by FaHCSIA)
Profit (measure one)	200 per cent	6.0	6.0
Proposal approval risk (measure 11)	High	20 per cent	80 per cent
Affordable housing delivery risk (measure 12)	Medium-high	15 per cent	60 per cent
Total weighted risk score	N/A	35 per cent	140 per cent
Adjusted profit (measure one)	**N/A**	**3.9**	**(2.4)**

N/A – not applicable

Source: ANAO analysis, based on FaHCSIA's first funding round assessment tool.

2.39 The increase in the risk weightings had a considerable impact on the calculations performed by the assessment tool. Specifically, the increase in the risk weightings reduced the profit score, and thus the final weighted merit score, for 63 of the 76 proposals. Most significantly:

- in 24 cases, the profit score was reduced by more than 100 per cent (resulting in a negative amount); and
- in 18 cases, the final merit score calculated by the tool was reduced by more than 100 per cent.

2.40 FaHCSIA advised the ANAO that changes were made to the risk weightings in the assessment tool to reflect a more prudent and cautious approach to risk. In particular, FaHSCIA advised that once the department commenced using the tool it became clear that the risk levels were not correct. As a result, the risk weightings were altered to provide greater risk proofing, that is, to increase the impact of higher risk ratings on the final merit score. However, there is no documentary evidence available that outlines when and why this decision was taken. Further, no information was available to support why a four-fold increase in the ratings was chosen. The significant impact on the merit scores suggests that the affect of the increased risk weightings was more acute than FaHCSIA envisaged or understood. Given the significant impacts on the final merit scores (and ultimately on the decision of which projects to fund) the basis of the decision to increase the risk weighting should have been documented, and appropriately authorised.

Errors in the swing weights

2.41 As outlined in Figure 2.1, the assessment tool allocated a weighting, known as the 'swing weight', to each of eight measures' 2nd weighted score to reflect their relative importance to the overall assessment. Coding errors in the version of the tool presented to FaHCSIA resulted in incorrect adjustments being made to two of the eight measures (measure one—profit and measure four—total savings to homebuyers). The impact of these systemic coding errors relating to the swing weight adjustments is illustrated in Table 2.5.

Table 2.5

Illustration of coding errors in swing weight adjustment

Measure	2nd weighted score	Swing Weight	Expected 3rd weighted score	Actual 3rd weighted score
1. Profit	5.0	0.266	1.33	0.60
2. More Affordable Homes	1.0	0.213	0.21	0.21
3. Additional Support	2.0	0.199	0.40	0.40
4. Total Saving to Homebuyers (per dwelling)	3.0	0.120	0.36	0.80
5. High Dwelling Demand	9.0	0.120	1.08	1.08
6. Level of Targeting	2.0	0.053	0.11	0.11
7. Accessibility	4.0	0.018	0.07	0.07
8. Sustainability	5.0	0.011	0.06	0.06
Total	**31.0**	**1.000**	**3.62**	**3.33**

Source: ANAO, based on FaHCSIA's assessment tool.

2.42 The errors in the swing weights resulted in the merit score for 65 proposals being overstated by an average of 22 per cent, and the merit score for 10 proposals being understated by an average of 12 per cent.

Error in the calculation of dwelling demand

2.43 The tool also contained an error in the calculation of dwelling supply and demand (measure five) that resulted in the final merit score being understated for 29 of the 76 proposals by an average of 35 per cent. Specifically, in calculating estimated dwelling demand per annum, the tool was designed to compare the movement in population information between 2006 (actual) and 2008 (projected at the time). However, the spreadsheet incorrectly divided the result by five, rather than two. The impact of this systemic coding error is illustrated in Table 2.6.

Table 2.6

Illustration of error in calculating estimated dwelling demand

Item	2006	2008	Estimated movement per annum (correct formula)	Estimated movement per annum (incorrect formula)
Estimated population	476 481	497 300	10 410	4164

Source: ANAO, based on FaHCSIA's first funding round assessment tool.

Analysis of the impact of the coding errors

2.44 Overall, the coding errors in the assessment tool meant that each of the 76 merit scores calculated by FaHCSIA in the first funding round was incorrect to some degree. Specifically the merit scores for:

- 44 of the 76 proposals were overstated—ranging from two per cent to 154 per cent; and
- 32 of the 76 proposals were understated—ranging from seven per cent to 77 per cent.

2.45 Based on the same cut-off point as used by FaHCSIA (the amount of funds available for expenditure in 2008–09), the ANAO determined that 38 EOIs should have been shortlisted and recommended to the then Minister for advancement to stage two.[42] However, only 31 of these proposals correspond to the shortlist initially prepared by the department. In particular, the shortlist determined by the ANAO:

- includes seven projects (worth $13.6 million)[43] that were not shortlisted by FaHCSIA as they were incorrectly ranked below the cut-off point; and
- does not include two projects (worth $1.8 million) that were shortlisted by FaHCSIA as they were incorrectly ranked above the cut-off point.

[42] The total amount of funds requested by these 38 applications in 2008–09 was $40.3 million, which is $1.5 million more than the amount of funds available. The ANAO included the 38th ranked project (worth $3.6 million in 2008–09) in the shortlist; otherwise a significant amount of funds would have been uncommitted.

[43] Three of these applications related to projects located in South Australia, while the other applications related to projects in Tasmania, New South Wales, Victoria and Queensland respectively.

2.46 Each of the two projects incorrectly recommended for advancement to the second stage of the first funding round were ultimately approved for funding.[44]

Funding recommendations and approvals in the first funding round

2.47 Providing funding advice that clearly differentiates between the relative merits of proposals in terms of the program's selection criteria and objectives assists decision-makers (including Ministers) to meet their obligations in relation to the approval of grants. In turn, departments should ensure that decisions taken are properly documented.[45]

Funding recommendations

2.48 Estimates Memorandum 2009/09, which was promulgated in January 2009, outlined that Ministers will not approve grants without first receiving advice on the merits of the proposed grants. In this regard, the ANAO's grants administration BPG indicates that advice on the merits of a grant application should include making a clear recommendation concerning whether or not a grant should be approved for funding.

2.49 The appropriate form and content of funding recommendations is largely a matter for each organisation to determine in light of the nature and risks of their grant programs. In this regard, in May 2009, FaHCSIA issued guidance[46] to its staff stating that funding recommendations should:

- outline key information about the process, such as details of the funds available, critical dates, number of applications, description of the assessment team and the assessment process;
- include a statement that the previously approved rules for application and selection were followed;
- outline any interpretations of the application and assessment rules;

[44] These projects are located in Tasmania and Western Australia. Both projects are required to deliver savings to home buyers equal to the value of their funding and as at the end of October 2010, departmental records indicate that both projects were tracking against expected milestones.

[45] ANAO, Better Practice Guide, op. cit., p.70.

[46] Department of Families, Housing, Community Services and Indigenous Affairs, *Processes to obtain and announce approval to spend public money through a funding agreement (grant)*, May 2009, pp.3–5.

- provide any other information relevant to the Minister's consideration of the assessment process, including on the merits of the applicants in relation to the program's guidelines; and
- contain details of the applications received, the applications (by ranking) and the level of funding recommended, and the applications not recommended for funding.

Recommending the shortlisted projects

2.50 FaHCSIA presented the then Minister for Housing with the results of the department's assessment of the EOIs on 25 November 2008. The then Minister was provided with:

- summary risk assessments for each of the 33 proposals shortlisted and recommended for advancement to stage two;
- an outline of the assessment process, including the basis of the cut-off point used by FaHCSIA to determine the shortlist;
- schedules of the 33 applications recommended and the 46 applications not recommended, together with the amount of funding sought and their respective merit scores; and
- a list of the 21 applications assessed as ineligible.

2.51 Overall, the information contained in FaHCSIA's advice supported the then Minister's subsequent decision, on 12 December 2008, to approve the 33 proposals recommended by the department. However, as discussed at paragraph 2.45, the shortlist of 33 proposals recommended by the department was incorrect.

Recommending projects for funding

2.52 In order to support the timely rollout of the HAF, FaHCSIA progressively provided funding recommendations to the then Minister during the first funding round. This was possible as the total cost of the 33 business cases assessed was within the allocated funding. The department provided three funding recommendation minutes to the then Minister during March and April 2009. The information supporting the department's recommendations was clear, and each minute was supported by project summaries and details of risk assessments.

2.53 In addition, in a fourth (undated) minute FaHCSIA recommended to the then Minister that the funding offers previously made to four projects (worth $11.2 million) should be rescinded. In each case, the reasons for rescinding the funding offers were clearly set out.

Approving the spending proposals

2.54 FMA Regulations 9, 10 and 12 set out the requirements that must be satisfied in relation to the approval of spending proposals, including the approval of grants. Prior to the amendments on 1 July 2009,[47] the requirements of these regulations are outlined in Figure 2.2.

Figure 2.2

FMA Regulations relating to spending public money prior to 1 July 2009

Regulation 9—prohibits an approver from approving a spending proposal unless they are satisfied, after undertaking reasonable inquiries, that the proposal is a proper use of Commonwealth resources.
Regulation 10—prohibits the approval of a spending proposal (under Regulation 9) if sufficient uncommitted appropriation is unavailable, unless the Finance Minister (or delegate) has authorised such approval.
Regulation 12—requires approvers of spending proposals to make a written record of the terms of their approval.

Source: *Financial Management and Accountability Regulations 1997.*

2.55 In September 2008 and February 2009, FaHCSIA's delegate provided the authority (under Regulation 10) that enabled subsequent spending proposals to commit up to $500 million in expenditure from the HAF. These authorities were provided prior to the date of the then Minister's approval of the department's funding recommendations in the first funding round.

2.56 The ANAO's grants administration BPG states that:

> Where Ministers or other decision-makers agree with the agency funding recommendation, they are able to point to the assessment and advice as representing the reasonable inquiries they have made as required by Regulation 9, so long as they are satisfied that the assessment was conducted with rigour and in accordance with the guidelines.[48]

2.57 The Minister's approval of the four funding recommendations presented by FaHCSIA was provided (in writing) on 2, 16 and 29 April 2009 and 7 September 2009. In each case, the funding approvals were clearly

[47] Details of the amendments to the FMA Regulations of 1 July 2009 are outlined at paragraph 1.18.

[48] ANAO, Better Practice Guide, op. cit, p.80.

documented, and were consistent with the information and advice provided by FaHCSIA in its funding recommendations.

Funding the public housing redevelopment projects

2.58 In mid-April 2009, while finalising the assessment of the first funding round business cases, FaHCSIA advised the then Minister of a potential underspend against the HAF's 2008–09 budget. The department advised that the potential underspend, estimated to be approximately $12 million, was primarily due to the fact that, at that stage:

- two of the 33 proposals shortlisted for funding had not been approved for funding;[49] and
- FaHCSIA had not completed its assessment for a further four proposals.

2.59 As shown in Table 2.7, the department's advice outlined five potential options to address the likely underspend.

[49] The advice infers, but does not make it clear, that FaHCSIA's decision to limit the number of shortlisted EOIs to the amount of funds available in 2008–09 contributed to the potential shortfall in expenditure against the program's budget.

Table 2.7

Options provided to the then Minister for Housing to address the potential expenditure shortfall in 2008–09

Option	FaHCSIA's recommendation
1. Seeking approval, through the Minister for Families, Housing, Community Services and Indigenous Affairs, from the Minister for Finance and Deregulation to rephase the HAF's 2008–09 funding.	This option was not recommended.
2. Returning the underspent funds to the Minister for Finance and Deregulation.	This option was not recommended.
3. Providing funding to support an affordable housing trial proposed in Sydney and Adelaide.	This option was not recommended.
4. Providing funding to the states and territories to support the development of more social housing dwellings, including: • redeveloping existing state owned housing; • assisting in the purchase of land in high cost areas; and • providing infrastructure to support development of social housing.	The department recommended that funds be provided to selected states.
5. Funding local government associations to support the implementation of reforms aimed at delivering more affordable housing, including training, staff support, and change management activities.	The department recommended that up to $4 million be provided for this option.

Source: ANAO, based on departmental records.

2.60 Departmental records indicate that the then Minister asked to discuss the department's recommendations on 28 April 2009. The department did not have any record of the outcome of these discussions. In addition, a handwritten note from a Ministerial Advisor dated 22 April 2009, which was attached to the department's minute, noted that only the fifth option (funding local government associations) was considered to be viable. In particular, the Advisor noted that providing funding for social housing works (option 4) was fundamentally different from the purposes of HAF.

2.61 Subsequently, on 17 June 2009, FaHCSIA advised the then Minister that the expected underspend in the HAF in 2008–09 would most likely be between $24 million and $32 million. To increase program expenditure prior to the end of 2008–09 to address the shortfall, the department provided the then Minister with the details of five public housing redevelopment projects that it considered should be funded from the HAF. The general purposes of these public housing redevelopment projects were closely aligned with the fourth option (social housing) that had been outlined in the department's advice to the then Minister in April 2009. Departmental records indicate that the then Minister was initially concerned about approving the projects outside of a formal funding round. In particular, the Minister advised the department that:

> While these projects may be meritorious, I believe that they are best considered in the second round.

2.62 Despite the Minister's decision, it is apparent that FaHCSIA continued to explore the options for funding these projects. On 23 June 2009, the department advised the then Minister that, following further negotiations with the relevant state government agencies, the department believed four of the five projects were suitable proposals to receive funding from the HAF. The department also advised the then Minister that there were insufficient funds remaining in the HAF in 2008–09 to fund each of the four projects. Accordingly, one project, which the department considered to be a greater risk, was not recommended for funding, and the department recommended that one project be partly funded, with a commensurate reduction in the project deliverables.

2.63 In total, the department recommended that funding of $24.4 million be provided for three public housing redevelopment projects[50] in order to utilise the unspent program funds. The Minister agreed to this recommendation on 24 June 2009. The actual expenditure shortfall was significantly higher then the estimated shortfall ($12 million) advised to the then Minister in mid-April 2009, principally due to delays in several projects as a result of the length of time taken to finalise funding agreements. This issue is discussed further in Chapter 4.

The assessment of the projects

2.64 A number of elements in the decision-making process leading to FaHCSIA's recommendation to fund these projects were inconsistent with the assessment processes set out in the published HAF guidelines, and with the design of the HAF as a competitive, merit-based program. It was not clear from departmental records when or how FaHCSIA identified these projects as potential beneficiaries of funding from the HAF. FaHCSIA advised that the

50 These projects are located in New South Wales, South Australia and Tasmania.

department approached a number of state and territory housing departments seeking advice on possible projects that would be ready to be advanced quickly and consistent with HAF objectives.[51] Departmental records indicate that FaHCSIA was involved in discussions with the respective state government agencies about these projects from May 2009.

2.65 FaHCSIA obtained proposals for each of the projects from the relevant state government agencies. However, these proposals were not submitted to FaHCSIA using the first funding round application form. As such, the proposals did not provide FaHCSIA with the range of information required by the HAF's first funding round guidelines. In addition, FaHCSIA did not assess the proposals against the HAF's published selection criteria, including whether the proposals represented value for money. Rather, departmental records indicate that FaHCSIA's assessment of the proposals focused on ensuring that the projects supported the development of new housing and delivered savings to homebuyers.

2.66 FaHCSIA's submissions to the then Minister about the projects described the intended outcomes of each project, including the numbers of new affordable homes expected to be delivered and the level of savings to be passed on to homebuyers.[52] However, there was no assessment of whether these deliverables were reasonable or achievable. FaHCSIA also advised the then Minister that it considered that the projects were consistent with the objectives of the HAF. In particular, the department advised that the following benefits were expected to be delivered by funding the projects:

- increasing the amount of affordable housing that will be available for private sale;
- bringing forward the supply of new housing;
- in one case, funding the construction of a multi-purpose community facility;
- bringing forward urban renewal and regeneration work necessary to reduce the concentration of public housing and create communities with a broader social mix; and

---

51 E-mail from FaHCSIA dated 7 September 2011.

52 In each project, the level of savings expected to be passed on to home buyers advised to the then Minister equalled the amount of funding to be provided. Subsequently, these respective savings amounts were quantified in the signed funding agreement for each project.

- no net loss in public housing stock.

2.67 The first three of these benefits are consistent with the intended purposes of the HAF as described in the first funding round guidelines. However, the relative importance of the fourth and fifth benefits is less clear. Departmental records indicate that these benefits were included in the advice to demonstrate that funding the three public housing redevelopment projects was consistent with the aims of the National Affordable Housing Agreement (NAHA).[53] In particular, FaHCSIA believed that these projects would assist in meeting the NAHA's stated reform of reducing concentrations of disadvantage in social housing estates, while at the same time not leaving existing public housing tenants without appropriate housing. While these outcomes may align with broader social housing policy objectives, they do not align with the stated purposes of the HAF.[54]

2.68 FaHCSIA advised the ANAO that the department put forward these projects, rather than re-examining the merits of the 43 applications that it had not shortlisted in November 2008, because none of the latter were considered to be of sufficient quality to warrant funding. However, the department did not determine a merit score for the public housing redevelopment projects or otherwise assess the proposals in terms of the program's published selection criteria. Assessing the relative merits of the public housing redevelopment proposals against the HAF's published selection criteria would have provided a better basis to compare the qualities of the proposals against each other, as well as against the 43 applications considered to be unsuitable. Further, the department did not undertake risk assessments for the projects.

2.69 The department sought probity advice in relation to the proposal from one state.[55] Specifically, the department sought advice on whether the proposal:

- could be funded outside of the established funding rounds; and

---

53 The National Affordable Housing Agreement provides the framework for the Australian Government and each of the state and territory governments to work together to improve housing affordability and homelessness outcomes for Australians. Sourced from http://www.federalfinancialrelations.gov.au/content/national_agreements [Date accessed: 1 September 2011].

54 The HAF's second funding round guidelines state that preference would be given to projects designed to create mixed communities through the building or redeveloping affordable homes for private ownership. However, the first funding round guidelines did not contain such advice.

55 FaHCSIA advised the ANAO that probity advice was not sought in relation to the submissions from the other states, as it considered that the proposals met the intent of the program.

- was eligible, as it related to the redevelopment of existing public housing, whereas the guidelines refer to increasing the supply of new housing.

2.70 The probity advice stated that funding a proposal received outside the normal funding round was acceptable if the proposal was assessed against the first funding round selection criteria. As discussed above, such an assessment was not conducted. In relation to the second issue, the probity advisor considered that the guidelines did not limit HAF funding to newly constructed homes, but also enabled funding to be provided for the provision of existing housing that was not previously available for purchase.

Funding recommendations

2.71 A key risk in funding the public housing redevelopment projects was the potential for the decision to be seen as inequitable, either by the unsuccessful applicants, potential applicants or by other interested stakeholders. These parties were reasonably entitled to expect that funding decisions were made in a manner that was consistent with the program's published guidelines.[56] Given this risk, it would have been prudent to advise the then Minister that funding these projects was not consistent with the stated intention of the HAF as a competitive, merit-based grant program. This would have enabled the Minister to make an informed decision on the merits and issues associated with approving these projects in the context of the HAF's objectives.

2.72 In its funding recommendations to the then Minister, FaHCSIA outlined the basis for recommending that the three projects be funded. This included providing details of the intended outcomes of each project, as well as describing the number of new affordable homes and the level of savings expected to be delivered from each project. However, the department's advice did not clearly indicate that funding the projects was not consistent with the assessment and selection process set out in the program's guidelines. Specifically, the Minister was not advised that the relative merits of the projects had not been assessed against the HAF's published selection criteria and that the proposals were not subject to the same level of objective assessment as the other projects approved for funding in the first funding

[56] ANAO, Audit Report No.14 2007–08, *Performance Audit of the Regional Partnerships Programme, Volume 1—Summary and Recommendations*, p. 21.

round. Rather than highlighting the potential risks of funding the projects, FaHCSIA advised the then Minister on the risks of not funding the projects by stating that 'negotiations with the applicants had built high expectations around funding offers'. As a result, the level of transparency around these decisions was reduced, and the risk that other applicants were not treated fairly was increased.

Conclusion

2.73 FaHCSIA's planning and design work leading up to the launch of the first funding round of the HAF was generally sound. Importantly, the department identified and assessed potential risk factors and prepared a risk treatment plan. The selection criteria were well designed and correctly reflected in the application form and the tool used to assess applications. With two notable exceptions, the guidelines used in the first funding round were consistent with the common information elements contained in the ANAO's grants administration BPG. The two exceptions were that the guidelines did not contain information on whether FaHCSIA or the Minister had discretion to waive or amend the selection criteria, or the circumstances in which this may occur; and did not contain information on the proposed funding terms and conditions.

2.74 However, there were a number of serious shortcomings in the assessment of the proposals during the first funding round. In particular, while the broad design of FaHCSIA's spreadsheet-based assessment tool was sound, with the key assessment measures in the tool aligning with the selection criteria published in the HAF's guidelines, there was a lack of effective control over the implementation and use of the tool. There was no evidence that FaHCSIA properly tested the tool prior to its use, or subjected the results reported by the tool to any quality control measures. As a result, the tool was implemented despite containing several formulaic errors. These errors meant that each of the 76 merit scores calculated by FaHCSIA were incorrect. As a result, two applications were incorrectly included in the shortlist of 33 proposals prepared by FaHCSIA in November 2008 and seven applications were incorrectly omitted from the shortlist.

2.75 FaHCSIA's decision to recommend the state government public housing redevelopment projects for funding from the HAF was inconsistent with the stated intention of the HAF as a competitive, merit-based grant program set out in the program's guidelines and communicated to potential applicants and other stakeholders. Significantly, FaHCSIA did not assess the relative merits of the projects against the published selection criteria, including whether the proposals represented value for money, nor did the department assess the risks of funding these projects. FaHCSIA's submission to the then Minister outlined the basis for recommending that the projects be funded, including describing the intended outcomes of each project. However, not all of these benefits aligned with the stated purposes of the HAF.

2.76 It was open to FaHCSIA to examine other options to fund these public housing redevelopment projects, such as seeking the then Minister's approval to vary the program's published guidelines or to transfer the underspend in the HAF to another, more suitable, program. However, the department did not pursue either of these approaches. Rather, it recommended funding the projects, which did not sit comfortably with the HAF's stated objectives.

3. The Second HAF Funding Round

This chapter examines FaHCSIA's administration of the second HAF funding round, including the processes associated with the decision to fund the Victorian Government public housing redevelopment project.

Introduction

3.1 The Australian Government's current financial framework for grants, which includes amendments to the *Financial Management and Accountability Regulations 1997* (FMA Regulations) and the promulgation of the Commonwealth Grant Guidelines (CGGs), was in place by the time that FaHCSIA launched the second funding round of the HAF in November 2009. The framework requires more transparent and accountable decision-making processes. Further, the CGGs state that, unless specifically agreed, competitive, merit-based selection processes, based upon clearly defined selection criteria, should be used for all grant programs.[57]

3.2 As mentioned in Chapter 2, an important element in improving the transparency and accountability of grants administration is the preparation of comprehensive funding recommendation minutes for Ministers (or other decision-makers). In this regard, the CGGs reiterate the requirement, previously contained in Estimates Memorandum 2009/09, that Ministers will not approve a grant without first receiving advice on the merits of the proposed grant.[58] The CGGs also introduced an additional requirement that agencies are responsible for advising Ministers on the requirements of the CGGs, and must take appropriate and timely steps to do so where a Minister exercises the role of financial approver. To give effect to this requirement, it is prudent for departments to include references to the requirements of the CGGs, which incorporate the relevant requirements in the *Financial Management and Accountability Act 1997* (FMA Act) and the FMA Regulations, in briefs provided to Ministers recommending funding for grants.

57 Department of Finance and Deregulation, op. cit., p.29.

58 ibid., paragraph 3.19.

Review of the HAF's administration at the end of the first funding round

3.3 Towards the end of the first funding round and prior to the launch of the second funding round, FaHCSIA commissioned a post-implementation review (PIR) of the HAF. The September 2009 PIR report[59] contained 19 recommendations designed to enhance the administration of the HAF. The majority of the recommendations related to proposed improvements to the application and assessment process for the second funding round, including redesigning the guidelines and the application form.

3.4 The PIR report stated that the HAF could benefit from having a structured program assurance role to 'provide confidence and guidance on the delivery of ongoing benefits'. Specifically, the report recommended that such a role would be responsible for evaluating the effective application of the core governance aspects of the HAF program, including: program and project management; probity and assurance; reporting requirements; benefits realisation; and risk management. The report noted, but did not recommend, that this role should be created outside of the team responsible for delivering the HAF. Departmental records indicate that the appointment of an independent program assurance advisor was considered as part of a review of the management of the HAF program, which followed the PIR. However, there was no documentary evidence on the outcomes of that review. During the audit, FaHCSIA advised that the implementation of a central program assurance advisory function, while worthwhile, would require a significant amount of resources and outlay of effort in order to provide an effective level of oversight.

Funding the Victorian public housing redevelopment projects

3.5 In August 2009, prior to the commencement of the second funding round, the Australian Government agreed that the then Minister for Housing would provide $175.3 million from the HAF to the Victoria Government to support three public housing redevelopment projects. The decision to fund these three projects from the HAF was made in the context that the Australian Government had announced savings of $750 million from the Social Housing Initiative,[60] comprising $574.7 million on a per capita basis, with a further

59 Ernst and Young, *Post Implementation Review – Final Report (Housing Affordability Fund Scheme, Department of Families, Housing, Community Services and Indigenous Affairs*), September 2009.

60 The Social Housing Initiative was announced in February 2009 as part of the *Nation Building Economic Stimulus Plan*.

Footnote continued on the next page…

reduction in Victoria's allocation of $175.3 million. These projects had previously been proposed under stage two of the Social Housing Initiative, but at that time had not been approved. In the context of the HAF, the Australian Government's decision was significant as the funds provided to the Victorian Government represent approximately 35 per cent of the total expenditure from the program.

The second funding round

3.6 The second funding round of the HAF was launched in November 2009. Consistent with a recommendation from the PIR, the second funding round involved a single-stage assessment process.[61] The promotional activities undertaken during the first funding round were repeated during the second funding round. In addition, FaHCSIA advised that the department also made information about the HAF available through the Australian Government's *GrantsLINK* website, as well distributing information about the HAF during information sessions on the National Rental Affordability Scheme.

3.7 FaHCSIA received a total of 141 applications (worth $708.6 million) in the second funding round, and in March 2010, recommended to the then Minister that 49 projects (worth $205.6 million) should be funded. Of the remaining 92 applications:

- 70 applications (worth $420.2 million) were assessed as unsuitable and were not recommended for funding; and
- 22 applications (worth $82.8 million) were assessed as non-compliant.

3.8 In late March 2010, the then Minister approved funding for eight of the 49 projects recommended by the department. Subsequently, FaHCSIA advised the Minister that, on 9 April 2010, the Australian Government had decided to quarantine $51.9 million in HAF funding to support the Council of Australian Governments' Housing Supply and Affordability Reform agenda. As a consequence of the Australian Government's decision, insufficient funding remained in the HAF to fund each of the remaining 41 projects that FaHCSIA had recommended for funding. Accordingly, FaHCSIA recommended that the

The initiative is designed to assist low-income Australians who are homeless or struggling in the private rental market by providing funding of $5.6 billion (in two stages) for the construction of new social housing and a further $400 million for repairs and maintenance to existing social housing dwellings.

61 The review concluded that the second funding round should be a single-stage application and assessment process as FaHCSIA had a better understanding of the proposals likely to be received and the information required to be captured.

then Minister approve funding for the 30 highest-ranked projects from the original list of 49 recommended projects that the Minister had not approved. On 19 April 2010, the then Minister approved FaHCSIA's recommendation. The value of the 38 projects approved in the second funding round was $169.3 million.

3.9 To assess the effectiveness of the processes associated with the implementation and administration of the HAF during the second funding round, the ANAO assessed whether FaHCSIA had:

- updated, and was monitoring, its risk assessment for the program;
- developed and disseminated informative grant guidelines;
- established sound selection criteria;
- executed a well-designed application assessment process;
- prepared clear and informative funding recommendations to the then Minister for Housing that were consistent with the outcomes of application assessment processes and the requirements of the CGGs; and
- ensured that funding approvals aligned with the amended requirements in Part 4 of the FMA Regulations.

Managing risks

3.10 FaHCSIA reviewed and updated the HAF risk register for the second funding round. As a result, one risk factor was deleted and ten new risk factors were included. The additional risk factors consisted of a mix of broader program management issues (such as insufficient resources), and lower-level operational matters (such as the application form not capturing required information). However, assessments of the likelihood and consequence of each of the new risks, as well as an overall rating, were not included in the updated register. Further, the associated risk treatment plan was not updated to include details on the proposed treatments relating to the new risk factors.

3.11 Rather than putting in place structured risk monitoring and reporting arrangements, FaHCSIA advised the ANAO that the identified risks were monitored as part of the day-to-day administration of the HAF program. There is, however, no documentary evidence to support the level of risk monitoring activity, including whether the department had assessed if the risks included in the risk register were still relevant, or whether any new risks had been identified and assessed.

The HAF guidelines

3.12 As mentioned in Chapter 2, the guidelines developed for a grant program can make an important contribution to the effective administration of the program. As shown in Table 3.1, the HAF's second funding round guidelines were generally aligned with the information elements outlined in the ANAO's grants administration BPG.[62] As was the case in the first funding round, the guidelines did not include information on whether the department or the Minister had the discretion to waive or amend the selection criteria, nor outline the circumstances in which this may occur (see further discussion at paragraph 3.31).

62 While the BPG was published after the guidelines for the second funding round were published, the information elements contained in the guide represent well-established principles that are applicable to any grants program.

Table 3.1

Analysis of the HAF Guidelines in the second funding round

Information content from ANAO's grants administration BPG	Contained in the second funding round guidelines
Program's purpose, objectives and desired outcomes	✓✓
Total level of funding available, including any limits on amounts available to each applicant	✗
Types of projects that will (and will not) be funded	✓✓
Types of bodies that are eligible (and ineligible)	✓✓
The governance arrangements that apply for the program's administration, including details of the respective roles and responsibilities of the Minister and agency officials	✓✓
Process by which eligible bodies are to apply, including details of the information required to be supplied and the application deadline	✓✓
Process to assess applications, including details of the selection criteria to be used	✓✓
Whether there is any discretion for waiving or amending the selection criteria during the assessment process and, if so, how it will be exercised	✗
Review or appeal mechanisms available to unsuccessful applicants	✓✓
Terms and conditions that will apply to grants, including the reporting and other accountability arrangements	✓[A]

Key: ✓✓ information contained in guidelines; ✓ information partly contained in guidelines; ✗ information not contained in guidelines.

Note A: The guidelines did not contain the proposed terms and conditions, but consistent with a recommendation in the PIR, the guidelines and the application form both stated that the proposed funding agreement templates were available from FaHCSIA's website.

Source: ANAO analysis.

3.13 Unlike the first funding round guidelines, the guidelines used in the second funding round did not contain any information on the amount of funds available. FaHCSIA advised that details of available funding were not included in the guidelines so as not to limit the number of applications and to provide applicants with flexibility.

The HAF selection criteria

3.14 The second funding round guidelines stated that preference would be given to projects that delivered more new homes in a shorter period of time, including planning reforms designed to reduce the time taken to approve development applications. More specifically, the guidelines indicated that priority would be given to proposals designed to deliver the following types of developments:

- greenfield (development on agricultural land or an undeveloped site in a city or rural area);
- infill (new construction within an existing built-up area);
- transit-oriented (developments providing housing within reasonable walking distance of public transport, shops and community services); and
- public housing estate redevelopment, including creating mixed communities through building or redeveloping affordable homes for private ownership.[63]

3.15 The selection criteria used in the second funding round were updated to reflect this change in focus. At the same time, some of the criteria from the first funding round that had proved to be impracticable or difficult to objectively assess were removed. As shown in Table 3.2, the selection criteria were re-organised into three categories.

63 Australian Government, *Housing Affordability Fund—The second funding round Guidelines*, October 2009, p. 4.

Table 3.2

Description of the selection criteria in the second funding round

Category	Elements
Compliance with Commonwealth, state, territory and local government requirements	• relevant regional strategic plans • affordability targets • accessibility requirements • environmental laws and requirements
Affordability and supply outcomes	• proximity to public transport • the number of new dwellings • sale price and level of discount to homebuyers • the number of dwellings for low and moderate income earners • time saved by bringing forward the development • improvements in the efficiency of planning processes • ability to verify money saved by the homebuyer, including the reduction in time taken in planning or approval stages
Accessibility and sustainability	• incorporation of universal design standards • environmental standards (such as 6-star energy ratings) • accessibility for older Australians or people with disabilities • sustainable water use • use of renewable energy and energy efficient homes • recycling of building waste

Source: Australian Government, *HAF—The second funding round guidelines*, pp. 10–11.

3.16 In addition to these selection criteria, the second funding round guidelines stated that applications would be assessed against the risks of delivering the proposal. The guidelines also contained the following requirements (although they were not described as selection criteria):

- infrastructure projects were required to deliver at least 50 new subsidised homes;[64]

[64] The inclusion of this criterion is consistent with a recommendation in the first funding round PIR. The criterion was designed to give preference to applications providing a greater level of benefits.

- applications would only be accepted from eligible organisations (listed in the guidelines as local governments, local government associations, and state or territory government departments or agencies); and
- no funding will be provided beyond the 2012–13 financial year.

Assessment of criteria

3.17 Overall, the selection criteria used in the second funding round were an improvement on the criteria used in the first funding round. As shown in Table 3.3, the second funding round criteria largely met the desirable characteristics for selection criteria contained in the ANAO's grants administration BPG.[65]

[65] While the BPG was published after the HAF selection criteria in the second funding round were established, the characteristics contained in the guide represent well-established principles that are applicable to any grants program.

Table 3.3

Assessment of the selection criteria in the second funding round

Characteristic	Result	Comment
Outcomes-focused and aligned with the policy objectives	✓✓	The inclusion of the criterion related to the amount of time saved by bringing forward the commencement of a development was a useful measure of the way that projects could speed up the supply of new houses, which was not addressed in the first funding round.
Promote additionality [A]	✓	The second funding round removed the assessment of 'additional discount' and included 'the quantum of discount passed on'. This criterion did not promote additionality to the same degree as the first funding round criterion.
Comprehensive	✓✓	While value for money was not explicitly included as a selection criterion (as it was in the first funding round), the second funding round guidelines state that the overriding principle for the selection of successful applicants in the second funding round was value for money for the Australian Government. In this regard, the application form captured information comparable to the measures that comprised the value for money criterion in the first funding round.
Clarity	✓✓	Clarity was improved in round two. Importantly, the word 'generally' was not used in describing the eligible organisations.
Objective assessable	✓	Most of the selection criteria are objectively assessable, although some criteria in the accessibility and sustainability group only require simple yes or no responses, which are hard to objectively assess.
Internally consistent	✓✓	As was the case in round one, none of the criteria are contradictory.

Key: ✓✓ criteria meets characteristic; ✓ criteria partly meets characteristic.

Note A: Whether the project will result in an outcome that is additional to the outcome likely to occur regardless of whether the application is successful.

Source: ANAO analysis.

Funding the Victorian public housing redevelopment project

3.18 Prior to the launch of the HAF's second funding round, the Australian Government agreed, in August 2009, that the then Minister for Housing would provide $175.3 million from the HAF to the Victorian Government to support three public housing redevelopment projects. Following the Australian Government's decision, FaHCSIA commenced consultations with the Victorian Government. In November 2009, FaHCSIA advised the then Minister that the department considered that funding the Victorian public housing redevelopment projects was broadly consistent with the HAF's aims. Further, the department advised the then Minister that the projects aligned with the HAF's second funding round selection criteria. Despite these assertions, there was no evidence that FaHCSIA had formally assessed the relative merits of the Victorian Government's proposal against the HAF's published selection criteria. In addition, FaHCSIA did not assess the projects' risks. Assessing the relative merits of the proposal and conducting a risk assessment would have provided FaHCSIA with a sound basis to compare the proposal against the 119 compliant applications the department subsequently received through the conventional second funding round application process. Such a course would also have accorded with probity advice in the first funding round (see paragraph 2.70) that all projects should be assessed against the established selection criteria.

3.19 During consultations with the Victorian Government, FaHCSIA identified that the HAF funds were to be used to support the construction of dwellings (rather than the construction of infrastructure). Accordingly, in November 2009, the department also advised the then Minister that the HAF's parameters would have to be extended in order to allow the funds to be used for the construction of dwellings. Subsequently, on 14 January 2010, the then acting Prime Minister approved an amendment to the scope of the HAF, specifically in relation to the three Victorian public housing redevelopment projects, to allow funding to be used for the construction of dwellings.

3.20 Unlike the other HAF projects involving infrastructure works examined by the ANAO for the second funding round, it is not possible to determine the amount of savings required to be passed on to home buyers from the three Victorian projects. This is because the funding agreement states that the required level of savings is to be determined by a formula—5 per cent savings from the eventual market price for 10 per cent of the properties involved in the project.[66] Subject to changes in the market value of dwellings, FaHCSIA estimated that the savings will be in the order of $10 million. In terms of the

[66] The three projects comprising the Victorian Government's proposal are located in Fitzroy, Prahran and Richmond, suburbs of Melbourne. The three projects were bundled together and funded as one HAF project. However, details of the three projects were contained in the funding agreement. In addition to the savings formula contained in the funding agreement, the Victorian Government's proposal stated that the some of the houses to be constructed were to be offered for private sale at a 'significant discount to the local market'. The proposal does not contain an estimate of the total value of such a discount, although it indicates that the Victorian Valuer-General had estimated that the discount 'will be in the order of 20 per cent'.

HAF's objective of reducing the cost of new homes the amount of savings required to be passed through to purchasers is very low compared with the level of HAF funds provided. Specifically, FaHCSIA's estimate represents only 6 per cent of the GST-exclusive value of the grant ($159.4 million).[67] In comparison, the amount of savings required to be delivered to home buyers in most of the projects involving infrastructure works that were funded in the second funding round equalled the amount of the grant. Such a low ratio of savings casts doubt on the value of the Australian Government's investment in terms of the HAF's objective of reducing the cost of new homes.

Approving the funding

3.21 FaHCSIA advised the ANAO that the department considered that the Australian Government's decision in August 2009 that the then Minister for Housing would provide the funds to the Victorian Government represented the relevant authority under FMA Regulations 9 and 12 (approving the spending proposal). Accordingly, the department advised that it did not ask the then Minster for Housing to subsequently approve the funding for the project. Rather, in November 2009, following consultations with the Victorian Government, FaHCSIA recommended that the then Minister agree to the department entering into negotiations with the Victoria Government with a view to providing the funding announced by the Australian Government. As mentioned at paragraph 3.18, in that advice FaHCSIA advised that the department considered the projects aligned with the HAF's key selection criteria, and that the intended outcomes of the projects were broadly consistent with the HAF's aims. The Minister agreed to this approach. Subsequently, in late March 2010, the department recommended that the then Minister agree to the department finalising the funding agreement with the Victorian Government; the Minister also agreed with this recommendation.

Assessment of applications in the second funding round

The assessment tool

3.22 FaHCSIA developed a new tool to support application assessment in the second funding round. FaHCSIA advised that the reasons for the new tool included:

[67] In March 2010, the department advised the Minister that the $175.3 million in funding for the Victorian Government was GST-inclusive.

- the changes in the selection criteria, and the redesign of the application form, meant the tool used in the first funding round would need to be heavily modified; and
- staff had an increased level of knowledge and experience which meant that it was more practicable to use a tool designed to make greater use of staff judgement.

3.23 FaHCSIA adopted a more structured approach to testing the second funding round assessment tool. This was consistent with the recommendation in the first funding round PIR that 'the assessment tool should be fully tested, including sensitivity tests, prior to the closing date for applications'. Overall, the ANAO assessed that the broad design of the assessment tool used in the second funding round was sound. In particular, the key measures (or criteria) contained in the tool equated to the selection criteria published in the second funding round guidelines. Further, the second funding round assessment tool was working as designed and undertaking calculations correctly. While some minor anomalies were observed, the impact of these on the calculations performed by the tool was not significant.

Assessing project risks

3.24 FaHCSIA engaged the same external firm used in the first funding round to undertake a risk assessment for each of the 119 compliant applications received in the second funding round. These risk assessments were completed using the same methodology (and matrix) used in the first funding round. As was the case in the first funding round, the firm provided FaHCSIA with an assessment of each proposal's level of risks, details of the risks considered to require mitigation, and a range of proposed mitigation strategies. However, unlike the first funding round, the results of these risk assessments were not entered into the assessment tool and did not contribute to each proposal's merit score. Rather, the overall risk rating assigned to each proposal was one of several factors taken into consideration by FaHCSIA in determining the final list of 49 proposals recommended to the Minister for funding in the second funding round (see further discussions at paragraph 3.28).

Funding recommendations in the second funding round

The first funding recommendation

3.25 On 3 March 2010, based on the outcome of the application assessment process, the department recommended 49 projects to the then Minister for Housing for funding. The 49 projects were not presented to the then Minister in the order of their ranking (as was the case in the first funding round). Rather, as shown in Table 3.4, the Minister was presented with three different views of the recommended projects. FaHCSIA advised that it presented the different configurations of the recommended projects to assist the Minister's decision-making.

Table 3.4

Different views of recommended projects presented to the then Minister for Housing

Attachment	Description
Attachment A— All Recommended Applications by State, by Project Type	The projects were listed by state. For each state, the projects were listed in ranking order by project type (infrastructure, reform and combined).
Attachment B—All Recommended Infrastructure, All Recommended Reform and All Recommended Combined	Projects were listed in three separate schedules by type of project. For each project type, the recommended projects were listed in order of ranking within each state.
Attachment C (comprising a different schedule for each state)	Same presentation as Attachment A, except that the information for each state was presented in separate schedules and totals were included for each state, including number of projects and amount of funding.

Source: ANAO analysis.

3.26 The schedules of recommended projects included a description of each project, as well as the following details:

- amount of funding sought;
- project's ranking;
- number of dwellings or lots involved;
- number of dwellings or lots involving savings;
- average days saved from reform; and
- number of days developments are brought forward.

3.27 The Minister was not provided with any details of the projects that the department had decided not to recommend for funding. Rather, the minute stated that 70 compliant applications had not been recommended for funding and that there were 22 non-compliant applications. In addition, the funding recommendation did not contain any information on the requirements of the CGGs, which as mentioned at paragraph 3.2, incorporate the relevant requirements from the FMA Act and FMA Regulations. FaHCSIA advised that advice on the requirements of the CGGs was provided separately to the Minister's Office on this issue.

3.28 The first funding recommendation stated that the 49 projects were ranked on the basis of the weighted merit score (determined by the department's assessment tool) and an assessment of project's risks. In addition, the department advised the Minister that several proposals involving shared equity arrangements had not been recommended for funding on the basis that they could not demonstrate that savings would be passed on to home buyers.

3.29 Subsequently, in mid-March 2010, the department provided the Minister with further information about the second funding round assessment process. Among other things, this advice indicated that:

> …the recommended list was ranked on merit and then rated to reflect issues such as parity between states, quantum of funding of particular states, mix between reform and infrastructure, [a consultant's] risk assessments and whether projects pass on savings directly.

3.30 The department's decision to moderate the rankings on the basis of the level of parity between states, the quantum of funding in particular states, and the mix between infrastructure and reform projects was incongruent with the following statement in the HAF's guidelines:

> …(the) funding round will be an open competitive selection process. There is no specific funding allocated to individual states or local government areas. All applications will be assessed against the selection criteria and funding will be awarded based on the merits of individual applications.

3.31 In this case, by taking these factors into consideration as part of the assessment process, the department has departed from the published selection criteria. The CGGs, which were promulgated before the round two guidelines were published, outline the Australian Government's current policy on amending the eligibility and assessment criteria established for a grant program.[68] Specifically, the CGGs state that:

- grant guidelines should document the circumstances in which the criteria may be waived or amended—as shown in Table 3.1, the second funding round guidelines did not contain such advice;
- agencies should seek appropriate authority (careful consideration should be given to seeking Ministerial authority) before amending criteria and appropriate records should be kept—there is no evidence that the amendment of the criteria was formally approved; and
- the reasons for a departure from approved appraisal and selection processes should be documented—although the factors used to moderate the rankings were documented in FaHCSIA's advice to the then Minister, that advice does not outline the reasons for the departures, or clearly state that FaHCSIA's decision to moderate the rankings represented a departure from the selection criteria in the HAF's guidelines.

3.32 In addition, there was no evidence that FaHCSIA had advised the round two applicants or any other relevant individual or body about the changes to the published selection criteria. In this regard, the ANAO's grants administration BPG states that amendments to the published selection criteria should be advised to stakeholders in a timely manner.[69]

3.33 As a result of the moderation of the rankings produced by the assessment tool, 14 projects worth $111 million initially ranked better than 49th were excluded from the list of recommended projects. Concomitantly, 14 projects worth $47 million that had been assessed as suitable, but had been initially ranked outside the top 49, were included in the list. The basis of FaHCSIA's decision not to recommend 10 of the 14 projects that been excluded from the list, even though the projects were initially ranked in the top 49, was confirmed in the department's assessment records. Most commonly, these projects were excluded on the basis that they were assessed as medium-high or high risk. Another common reason was that FaHCSIA was uncertain about the extent that savings would be passed on to home buyers.[70] However, there was

---

68 Department of Finance and Deregulation, op. cit., p.29.

69 ANAO, Better Practice Guide, op. cit., p.66.

70 These reasons are consistent with the factors that FaHCSIA initially advised to the then Minister (paragraph 3.28).

no clear justification why four of the projects (two from Victoria and two from NSW) were excluded from the list.

3.34 In relation to the decision not to recommend these four projects for funding, FaHCSIA advised the ANAO that:

> The (funding) recommendations sought to balance assessment with project type and the funding envelope with investment across Australia. The total amount of HAF funding for Victoria was influenced by the announcement of the $175 million from HAF for the Victorian public housing redevelopment project(s) and similarly with an eye on the funding available and investment in all jurisdictions the department (only) recommended 13 of the 45 NSW applications.[71]

3.35 Again, FaHCSIA's decision to moderate the spread of funding across states and territories and project types, including taking into account the Australian Government's decision to allocate funding for the Victorian public housing redevelopment projects, was not consistent with the selection and assessment process described in the published guidelines.

The second funding recommendation

3.36 On 29 March 2010, the Minister gave initial approval for only eight of the 49 projects recommended by FaHCSIA, at a total cost of $50 million.[72] Subsequently, FaHCSIA advised the Minister that, on 9 April 2010, the Australian Government had decided to quarantine $51.9 million in HAF funding to support the Council of Australian Governments' Housing Supply and Affordability Reform agenda.[73] As a consequence, there was insufficient uncommitted money remaining in the HAF to enable each of the remaining 41 projects recommended by the department to be funded.

3.37 As a result, the department recommended that the then Minister approve funding for the 30 highest-ranked proposals (from the initial list of 49 recommended projects) that the Minister had not approved on 29 March 2010. The minute supporting the department's recommendation contained details of

---

71 E-mail from FaHCSIA on 24 November 2010.

72 See further discussion on the approval of grants in the second funding round at paragraphs 3.38 to 3.42.

73 The reduction of $51.9 million in HAF funding was announced in the *Pre-Election Economic and Fiscal Outlook 2010, July 2010, p. 29. Available at* <http://www.treasury.gov.au/contentitem.asp?e=1&NavId=057&ContentID=1858> [Date accessed: 11 October 2011]. The redirection of these funds to support the establishment of the Building Better Regional Cities program was announced in the *Mid-Year Economic and Fiscal Outlook 2010-11*, p. 245. Available at <http://www.budget.gov.au/2010-11/content/myefo/html/prelims.htm> [Date accessed: 11 November 2010].

the Australian Government's decision to quarantine funds from the HAF, together with a statement that 11 of the 49 projects initially recommended were now unable to be funded, including five projects that were ranked higher than two of the projects that the Minister approved in late March 2010. As was the case for the earlier funding recommendation (on 3 March 2010), the second funding recommendation did not contain any mention of the requirements of the CGGs, nor any details of the relevant legislative requirements.

Approving grants in the second funding round

3.38 From 1 July 2009, FMA Regulation 9 was amended to state that spending proposals must not be approved unless the approver is satisfied, after making reasonable inquiries, that giving effect to the spending proposal is a proper use of Commonwealth resources. As part of the enhancements to the Australian Government's grants administration framework mentioned in Chapter 1, FMA Regulation 12 was also amended from 1 July 2009. As well as the existing requirement to record the terms of approval, Regulation 12 now also requires, if the spending proposal relates to a grant, that approvers must record the basis on which they are satisfied that the spending proposal complies with FMA Regulation 9.

3.39 In those cases where decision-makers agree with the funding recommendation prepared by a department, they are able, as long as they are satisfied that the department's assessment was conducted properly, to rely on the assessment as documenting the basis for their decisions. However, in those cases where decision-makers decide not to approve projects that have been recommended for funding it is good practice for departments to advice decision-makers, including Ministers, to record the basis of their decisions in order to promote better transparency and accountability. In particular, decision-makers should be invited to document the reasons for elevating or demoting applications from the ranking determined by the assessment process.[74]

3.40 As mentioned at paragraph 3.36, on 29 March 2010 the then Minister approved only eight of the 49 projects recommended by the department. The eight projects were not the eight highest-ranked projects. Rather, the then Minister approved the top-ranked project in each state and territory (except Tasmania), as well as the third-ranked project in New South Wales. In this

[74] ANAO, Better Practice Guide, op. cit., pp. 81–82.

instance, no written justification to support the decision to only approve eight of the recommended projects was made. FaHCSIA advised that the department understood that the basis of the selection of the eight projects was that all jurisdictions (except Tasmania) were represented.

3.41 In this instance, as the then Minister did not approve all of the grants recommended by the department, and as those that were approved did not reflect FaHCSIA's order of merit, the department's advice does not, on its own, provide sufficient basis to support the Minister's decision for the purposes of FMA Regulation 12. FaHCSIA did not, either at the time that it obtained the Minister's approval or subsequently, advise the then Minister of the importance of recording the basis of her decision to approve only some of the 49 projects recommended.

3.42 On 19 April 2010, the then Minister agreed to the department's second funding recommendation to fund the 30 listed projects. The approval was provided in writing, and as the Minister accepted the department's recommendation, the advice provided sufficient basis for her decision.

Recommendation No.1

3.43 In order to improve the quality of its grants funding advice to decision-makers (including Ministers), the ANAO recommends that FaHCSIA's future grants funding recommendations include:

(a) an overview of the approach used to assess the relative merits of the projects it has recommended (and not recommended) for funding, highlighting any departures from the arrangements set out in the program's guidelines; and

(b) the key requirements relating to the approval of grants contained in the Commonwealth Grant Guidelines.

FaHCSIA response

3.44 Agreed.

Conclusion

3.45 Overall, the changes made by FaHCSIA to parts of the HAF's governance and operating structure in response to the redesign of the program were appropriate. This included updating the program's risk register, updating the selection criteria and adopting a more structured approach to the implementation of the second funding round assessment tool. However, the ANAO observed that:

- assessments of the likelihood and consequence for each new risk factor as well as details of associated risk treatments were not documented; and
- the second funding round guidelines did not address whether the department or the Minister had the discretion to waive or amend the selection criteria, nor outline the circumstances in which this may occur.

3.46 The second funding round was also subject to inconsistent application of the assessment criteria contained in the published guidelines provided to potential applicants. In particular, in determining the list of 49 applications that were recommended for funding, FaHCSIA moderated the initial order of merit (or ranking) of the applications to reflect parity between the states, the quantum of funding in states, and the mix of infrastructure and reform projects. Taking these factors into account in the assessment process was inconsistent with the statement contained in the published guidelines that funding in the second funding round would be awarded based on the merit of each proposal and that funding would not be allocated to specific states or local government areas. In addition, FaHCSIA's funding recommendation to the then Minister did not clearly state that the department's decision to moderate the ranking of the compliant applications was inconsistent with the published HAF guidelines.

3.47 The funding recommendations provided to the then Minister in the second funding round generally contained sufficient details to support the then Minister's decision-making. However, FaHCSIA did not advise the Minister of the relevant requirements of the CGGs to which the Minister was required to have regard. Further, there is no evidence that FaHCSIA advised the then Minister of the importance of recording the basis of her decision to initially approve only eight of the 49 projects that it had recommended.

3.48 During the implementation of the Australian Government's decision to provide funding to the Victorian Government to support three public housing redevelopment projects, FaHCSIA advised the then Minister that the department considered the aims of the projects aligned with the HAF's key selection criteria. Despite this assertion, there was no evidence that FaHCSIA had formally assessed the merits of the Victorian Government's proposal against the HAF's selection criteria. The signed funding agreement does not stipulate the amount of savings required to be passed on to home buyers from this project. Rather, the funding agreement states that the level of savings is to be determined by a formula. FaHCSIA estimated that the savings from the project will be in the order of $10 million. In terms of the HAF's objective of reducing the cost of new homes the amount of savings required to be passed through to purchasers is very low in comparison with the level of HAF funds provided, particularly as most other HAF infrastructure projects are required to pass on the full value of their funding as savings to home buyers.

4. Executing and Managing Funding Agreements

This chapter examines FaHCSIA's arrangements for implementing and managing funding agreements for each approved project, including monitoring the progress and performance of the projects.

Introduction

4.1 Funding agreements are legally binding agreements between the Australian Government and the organisation provided with the grant. Funding agreements help ensure that there is a common understanding about the performance and outcomes expected from provision of the grant, as well as the timeframes, payment arrangements, accountability requirements and other conditions or obligations associated with the grant.

4.2 Ongoing monitoring of the funded projects provides a measure of assurance that the projects are meeting their agreed milestones and other requirements related to their funding. Monitoring contributes to a better understanding of how projects are performing, as well as the identification of any new and emerging risks to the achievement of the funded projects' and the program's objectives.

The HAF's funding agreements

4.3 In each funding round, once the then Minister had approved the projects to be funded, FaHCSIA commenced negotiations with the projects' proponents on the form and content of funding agreements. By the end of September 2010, FaHCSIA had signed funding agreements for each of the 24 continuing[75] projects approved in the first funding round, and for 21 of the 38 projects approved in the second funding round. At that time, FaHCSIA was still negotiating the funding agreements for 17 of the projects, worth $92.8 million, that were approved in the second funding round.[76]

[75] Excludes one infrastructure project (worth $0.2 million) that was approved in April 2009, but which was withdrawn from the program in July 2010. As mentioned in Chapter 1, the funding agreement for this project was terminated and the funding repaid to the Australian Government.

[76] In June 2011, SEWPaC advised that funding agreements had not been signed for seven of the projects approved in round two.

4.4 By September 2010, FaHCSIA also had funding agreements in place for each of the public housing redevelopment projects that were directly funded from the HAF. As discussed in Chapter 2, FaHCSIA began negotiating the funding terms and conditions for the three projects funded at the end of the first funding round prior to obtaining the then Minister's approval. In the case of the Victorian public housing redevelopment projects, FaHCSIA obtained the then Minister's approval to enter into negotiations with the Victorian Government on the terms and conditions attached to the funds to be provided.

4.5 Of the 49 signed funding agreements in place at the end of September 2010:

- 41 (worth $301.8 million) related to projects involving infrastructure works—that is infrastructure, combined or public housing redevelopment projects; and
- eight (worth $23.2 million) related to reform projects.

4.6 The ANAO examined whether FaHCSIA had put in place, and was managing, appropriately structured funding agreements with the recipients of HAF grants. In particular, the ANAO assessed whether:

- funding agreements were signed in a timely manner;
- FaHCSIA was accurately reporting, in accordance with the Commonwealth Grant Guidelines (CGGs), the details of HAF grants;
- the form and content of funding agreements aligned with the objectives of the HAF and were commensurate with the size and nature of the funded projects;
- FaHCSIA was monitoring compliance with funding conditions and the achievement of milestones, as well as capturing information about each funded project's performance; and
- FaHCSIA had processes in place for varying and terminating funding agreements with the grant recipients.

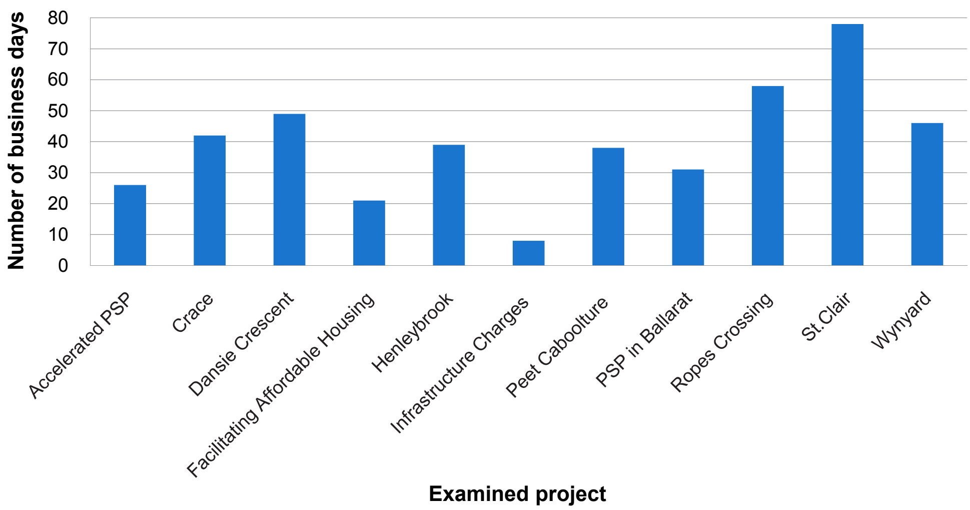
Signing funding agreements

4.7 The timely execution of funding agreements, complete with detailed performance reporting obligations and payment schedules, is an important part of helping ensure that projects are implemented and the expected benefits are realised in accordance with plans and proposals.

4.8 As shown in Figure 4.1, for 11 of the projects examined (excluding the four public housing redevelopment projects), the time taken to sign funding agreements ranged from eight to 78 business days (an overall average of 40 business days) from the date that projects were approved.

Figure 4.1

Time taken to sign funding agreements



Source: ANAO analysis.

4.9 The funding agreements for the examined reform projects were each signed more promptly than the projects involving infrastructure works that were examined. This reflects the fact that projects involving infrastructure works were larger and more complex and that, as a result, the terms and conditions in the funding agreements were more detailed. Another reason for the longer average elapsed times for the projects involving infrastructure works was that the project proponents in the first funding round did not have an opportunity to familiarise themselves with the funding agreement's terms and conditions prior to receiving the formal offer of funding.[77] This resulted in extended negotiations, in particular, around the proposed financial security arrangements.[78] Notwithstanding the delays that were experienced,

---

[77] This issue was overcome in the second funding round, when the draft terms and conditions were made available to potential applicants through the department's website.

[78] FaHCSIA proposed incorporating a financial security facility into the funding agreements for infrastructure-related projects to help address the risk that sufficient savings are not passed on to home buyers. The then Minister agreed with FaHCSIA's recommendation that, for projects involving funding agreements with state and territory government agencies, a letter of support from the respective state treasury was a suitable form of financial security.

particularly in the first funding round, each of the respondents to the ANAO's questionnaire indicated that they were satisfied with the process for negotiating the funding agreement with FaHCSIA.

Grants reporting

4.10 The CGGs require that agencies publish information on each approved grant on their website no later than seven working days after the funding agreement takes effect.[79] Detailed guidance on the range of information required to be published for each approved grant, including the reporting format to be used, is contained in Finance Circular 2009/04—Grants Reporting Requirements.

4.11 The grants information reported on FaHCSIA's website is based on an automated routine designed to extract the relevant records from its funding management information system, FOFMS. FaHCSIA advised that the department undertakes a series of manual checks to assess the accuracy and completeness of the records that have been extracted. This includes assessing whether any payments have been made for funding agreements recorded as inactive at the time of the routine.

4.12 The ANAO's analysis of the information reported for the HAF by FaHCSIA[80] has confirmed that reports were in a format consistent with the requirements in Finance Circular 2009/04. In the main, the information reported for the 50 HAF grants that had been approved, and had a signed funding agreement in place at the time, was correct. As shown in Figure 4.2, the report extract contained a small number of errors.

---

79 The same reporting requirement existed in EM 2009/09 and a similar requirement existed in EM 2007/50.

80 The ANAO extracted information relating to HAF grants from the department's grants report located at the following internet address on 23 September 2010—http://www.fahcsia.gov.au/grantsfunding/announcements/Pages/default.aspx. Given the timing of the audit it was not practicable to examine whether details of each grant were reported within seven days of the funding agreement taking effect.

Figure 4.2

Summary of errors in reported HAF grants

> The report did not include one grant that was approved by the then Minister for Housing on 19 April 2010. This grant was not included in the report because its status was incorrectly marked as being 'draft' in FaHCSIA's funding management system, FOFMS. The report also incorrectly reported:
>
> - the value of the grant for one project as $2 million (GST-inclusive)—the correct amount is $4 million (GST-inclusive);
> - the GST-exclusive amount for two grants (rather than the GST-inclusive amount);
> - the grant term (in months) for one project; and
> - the grant approval date for seven projects.

Source: ANAO analysis.

The form and content of funding agreements

4.13 The CGGs state that unless legislation or policy mandates the form of funding agreements, the appropriate form should be based on:

- the program's risks, and those of the project being funded;
- the context in which the grant is being made, including the nature of the recipient;
- the funded project's deliverables; and
- the mechanisms desired for managing the funded project's progress and performance, including any instances of non-compliance with funding terms and conditions.[81]

4.14 To assess the sufficiency and appropriateness of the content of funding agreements for the HAF, the ANAO has examined whether the agreements:

- were consistent with FaHCSIA's funding agreement templates; and
- contained provisions that set out the:
  - project's expected outcomes;
  - measures of the project's performance;

[81] Department of Finance and Deregulation, op. cit., p.24.

- payment structures; and
- project's reporting requirements.

Funding agreement templates

4.15 FaHCSIA has developed a number of funding agreement templates for use across its various grant programs. The HAF used two of these templates for the three types of projects funded under the program:

- infrastructure projects used the department's standard capital works agreement;
- reform projects used the department's standard long-form agreement; and
- combined projects used the department's standard capital works agreement, but contained additional material dealing with the reform elements of the project.

4.16 The two funding agreement templates used by the HAF had the following broad structure:

- a set of standard terms and conditions; and
- a schedule containing the project-specific information, including the objectives, deliverables, reporting arrangements, and payment schedules.

4.17 The two types of templates contained many similar terms and conditions. The main difference was that the capital works template contained several additional terms and conditions and schedules related to capital works or construction activities. Each of the templates contained, at a minimum, the desirable core elements outlined in Table 4.1.

.

Table 4.1

Desirable core elements for funding agreements

Elements [A]
Purpose and expected outcomes of the grant
Conditions/obligations on the grant recipient
Payment arrangements
Rights of access
Requirements relating to insurance
Financial or performance security or guarantee
Performance measures
Reporting requirements, both financial and performance
Ability to withhold funds in instances of insufficient progress/performance
Ability to and mechanisms for varying and terminating the agreement
Acquittal arrangements
Treatment of any unexpended funds
Taxation arrangements

Note A: These elements are based on information contained in the *Commonwealth Grant Guidelines*, the ANAO's grants administration BPG and *Legal Briefing 83 – Grants and Funding Programs* by the Australian Government Solicitor (published in November 2009).

Source: ANAO analysis.

4.18 Each of the signed funding agreements examined were, for the most part, consistent with the form and content of the respective funding agreement templates developed by FaHCSIA. There were, however, a number of unexplained variations from the standard templates among the examined projects involving infrastructure works. The main variations were that the funding agreements for:

- the three state government public housing redevelopment projects funded in the first funding round stated that the requirement for the financial security[82] was not applicable;
- five of the projects stated that clause 10 (purposes deed) was not applicable;[83] and

[82] The financial security requirement is explained in footnote 78.

[83] The purposes deed codifies the requirement that the funding is used for specific purposes.

- four of the projects did not adhere to the standard performance reporting requirements (also see paragraph 4.47).

Expected outcomes

4.19 The HAF has two broad objectives—increasing the supply of new houses and making housing more affordable. The ANAO assessed whether funding agreements for infrastructure-related and reform projects contained a sufficient level of detail to assist FaHCSIA to measure the contribution of the project to the achievement of these objectives.

Infrastructure-related projects

4.20 Funds are provided to infrastructure-related projects to offset the costs of activities associated with the development of new houses. Among the infrastructure-related projects examined, funding was provided for the construction of access roads, connections to water and sewerage infrastructure, as well as the construction of community-based facilities, such as a wetlands area, playing fields and a community resource hub. These projects were designed to make housing more affordable by requiring the reduction in the costs of constructing the infrastructure to be passed on to home buyers as a rebate or saving against the price of the houses.

4.21 Each of the 41 funding agreements for projects involving infrastructure works examined by the ANAO contained information that was pertinent to the achievement of the HAF's objectives. Specifically, the funding agreements contained details of:

- the number of dwellings to be constructed, including the number of more-affordable dwellings (that is, dwellings requiring savings to be passed on to home buyers); and
- the savings to be delivered–together, the funding agreements state that the amount of savings required to be passed on to home buyers is $133 million.

4.22 However, the funding agreements for two of the infrastructure projects (see Table 4.2) only describe the nature of the savings required to be delivered. In these two cases, the amount of savings required to be delivered is not quantified in the funding agreement. Although the projects are required to deliver affordable housing, the level of detail in the funding agreements do not enable the department to measure the level of benefits or savings, or compare these savings with the value of the grant.

Table 4.2

Funding agreements that do not quantify the amount of savings

Project	Amount of grant ($'m)	Description of savings in funding agreement
Bonner Affordable Housing	3.5	The funding agreement stipulates that 330 dwellings are to be sold below a 'maximum sale price', which is defined in the agreement.[A]
Public housing redevelopment (Victoria)	159.4	The project's funding agreement stipulates that the purchase price of 10 per cent of the total dwellings being constructed (around 730 dwellings) must be sold at a price at least 5 per cent below market value.

Note A: FaHCSIA advised that the maximum sale price equated to the legislated affordable housing price applying in the ACT.

Source: ANAO analysis.

4.23 In addition, in the funding agreements for five projects involving infrastructure works, the amount of savings required to be delivered to home buyers is less than the amount of the grant provided.[84] FaHCSIA advised that the decision to recommend these projects for funding was based on a number of factors, not just the quantity of savings passed on to home buyers. As shown in Table 4.3, while the funding agreement for each of these projects contains details of other deliverables, the value of these deliverables is not quantified in all cases.

[84] In addition to these five projects, as discussed at paragraph 3.20, FaHCSIA estimated that the amount of savings that will be passed through to home buyers from the Victorian public housing redevelopment project is likely to be only 6 per cent of the amount of the grant.

Table 4.3

Projects involving infrastructure works with required savings less than amount of grant

Project	Amount of grant ($'m)	Savings required ($'m)	No. of dwellings required	Other deliverables
Crace	7.6	3.9	250	The construction of 239 dwellings that are to be sold to eligible purchasers at no greater than a maximum sale price.[A] The amount of savings to home buyers from the sale of these 239 dwelling is not quantified in the funding agreement.
Medina Centre	4.0	3.0	60	Upgrade of the Town Hall and construction of a new community building.
Medium density site development	2.5	1.5	50	The construction of a further 202 dwellings.
Peet Caboolture	10.5	1.5	100 (residential lots)	The project includes a series of reforms designed to speed up the time taken to assess low risk development applications. The benefits from the implementation of the reforms are not quantified in the funding agreement. Further, while the project is required to report that the reforms have been implemented, it is not required to measure the outcomes. For more details see Case Study 1.
Sturt Living	2.8	2.0	52	The construction of a further 20 dwellings for subsidised rental housing. The benefits arising from these additional dwellings are not quantified and are not required to be reported on.

Note A: FaHCSIA advised that the maximum sale price equates to the legislated affordable housing price applying in the ACT.

Source: ANAO analysis.

Case Study 1

Peet Caboolture Riverbank Estate project

The grant provided for this project was $10.5 million, of which $10 million related to infrastructure work. The project's funding agreement stipulates that savings of only $1.5 million ($15 000 for each of the 100 residential lots being developed) are required to be passed on to home buyers.

In its application form, the proponent indicated that the project would deliver savings to purchasers totalling $25.7 million, comprising $1.5 million (relating to the development of 100 residential lots) and $24.2 million (estimated savings by bringing forward the development of 1300 dwellings by two years).

The performance reporting regime for the project only requires the project proponent to provide evidence that the 100 residential lots have been sold and that the required savings have been passed on to eligible purchasers. It does not require information on the additional dwellings estimated by the proponent to be constructed, or information on the additional savings estimated from bringing the development forward.

Source: ANAO analysis.

Reform projects

4.24 Reform projects are funded to support reforms in housing planning and development processes. Among the reform projects examined, funding has been provided for the development of new affordable housing policies and plans, and the conduct of related research and studies.

4.25 There is an inconsistent level of information pertinent to the achievement of the HAF's objectives in the funding agreements relating to the eight approved reform projects. Specifically, only one of the eight funding agreements examined for reform projects clearly established, and required reporting of, the number of dwellings likely to be involved. The funding agreement for one other project stated that the project involved '20 opportunity sites for affordable housing, with an expected yield of up to 1000 units'. However, in this case, the funding agreement only required reporting about the number of sites, and not the number of dwellings.

4.26 As shown in Table 4.4, not all of the funding agreements relating to reform projects contained information about the level of savings to be delivered to home buyers. This variation is, in part, due to the fact that different requirements existed between the two funding rounds. In the first funding round, proposals for reform projects were required to estimate both the cost and time savings expected to be delivered. In the second funding round, only estimates of time savings were required.

Table 4.4

Analysis of information about savings in funding agreements for reform projects

Funding round	Number of reform projects examined	Funding agreements containing information about cost savings	Funding agreements containing information about time savings
First	4	1[A]	2
Second	4	0	1

Note A: this project (worth $5.7 million) is required to deliver savings of $5.4 million to home buyers.

Source: ANAO analysis.

4.27 The inconsistent level of information about dwellings and savings in funding agreements, and in some cases the absence of such information, means that the level of savings to be passed on to home buyers is not clear in all cases. In turn, this increases the risk that the department is not able to accurately measure and verify the contribution of all projects towards the achievement of the HAF's objectives. In addition, it may mean that the results achieved by such projects are not readily attributable to the HAF's publicly stated performance measures (see Chapter 5). The lack of information about savings in funding agreements was also identified in the first funding round PIR, which recommended 'funding requirements should provide clearly defined mechanisms that will used to benchmark, measure and validate project savings'.[85]

4.28 The funding agreements for each approved project were put in place by FaHCSIA. Following the Administrative Arrangements Order of 14 September 2010, SEWPaC is now responsible for the administration of the HAF, including managing the performance of the approved projects. To improve the level of information in funding agreements relating to targets that are aligned with the HAF's stated objectives, SEWPaC would need to reach agreement with the affected projects' proponents to vary the funding agreements' terms and conditions.

[85] Ernst and Young, op. cit. p.18.

Recommendation No.2

4.29 To strengthen performance management arrangements for the HAF, the ANAO recommends that SEWPaC seek to update funding agreements to include targets for the number of affected dwellings and the amount of savings to be delivered.

SEWPaC response

4.30 The department agreed with Recommendation No.2 in relation to strengthening performance management arrangements for the HAF.

Performance measures

4.31 Performance requirements contained in funding agreements should be designed to elicit information that contributes to, or assists in, the monitoring of the performance of the HAF program as a whole, including the achievement of its objectives or outcomes.

4.32 Each of the funding agreements examined describes the goals of the project being funded and the outputs to be delivered, as well as setting out the measures to be used to assess the performance of the project. The performance measures included in the funding agreements comprise:

- the grant recipients' progress in meeting the stated project goals;
- the completion of deliverables at agreed times; and
- for projects involving infrastructure works:
  - the department's acceptance of practical completion reports; and
  - the number of 'accessible and sustainable housing' checklists submitted to the department.

4.33 Together, the performance indicators contained in the examined funding agreements provide a suite of information on the performance of each project.

Responses to the ANAO's questionnaire

4.34 Respondents to the ANAO's questionnaire considered the key performance indicators in their respective funding agreements to be meaningful and relevant. The majority of respondents agreed that the requirements of their funding agreement provide information that could be used to measure the provision of savings to home buyers.

Payment structures

4.35 The payment arrangements contained in funding agreements should be designed to support the achievement of both the projects' and the program's objectives. In addition, the payment arrangements should appropriately safeguard public money, as well as promote the obligations of the funded project to make proper use of the funds provided. One such arrangement is the release funds in instalments, rather than in a single, up-front payment.

4.36 As shown in Table 4.5, in 12 of the 15 projects examined, the approved grant amount was scheduled to be paid in instalments over the life of the project. For the remaining projects, the full amount of the approved grant was scheduled to be paid at the start of the project.

Table 4.5

Number of scheduled grant payments in the examined projects

Project	Approved grant ($'m)	Project term (months)	Total no. of payments	No. of payments at start of project	No. of payments during project
Accelerated PSP	8.5	43	5	1	4
Clarendon Vale	5.0	105	1	1	0
Crace	7.6	48	5	0	5
Dansie Crescent	0.1	17	2	0	2
Facilitating Affordable Housing	0.4	15	2	0	2
Henleybrook	6.9	55	4	0	4
Infrastructure Charges Subsidisation	5.7	42	10	1	9
Peet Caboolture	10.5	67	4	0	4
PSP in Ballarat	1.9	40	5	0	5
Public housing redevelopment (Vic)	159.4	225	4	1	3
Ropes Crossing	3.9	89	3	1	2
Rosemeadow	9.9	78	1	1	0
St Clair	12.8	89	7	1	6
Woodville West	9.5	75	1	1	0
Wynyard	0.3	17	2	0	2

Source: ANAO analysis.

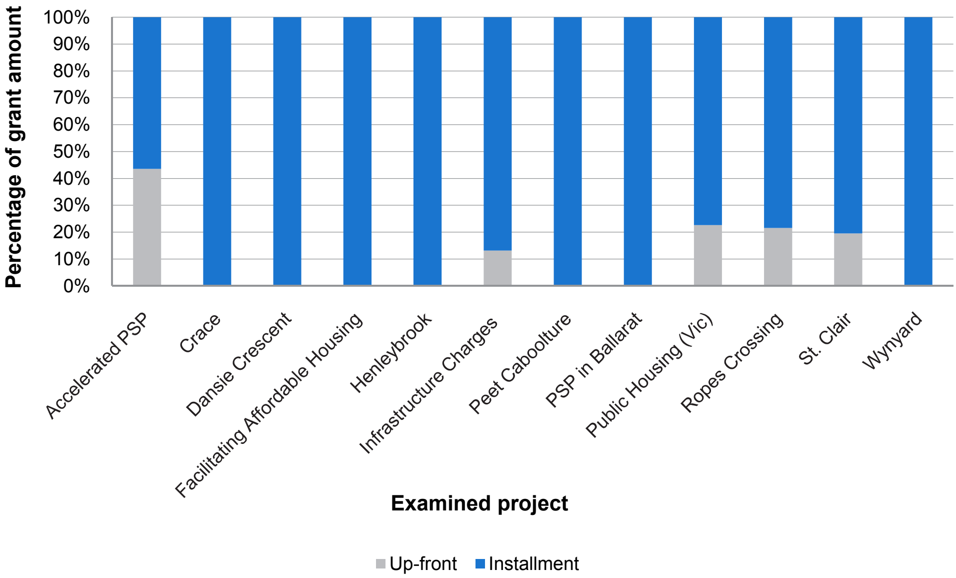
4.37 The three projects with the full amount of the approved grant scheduled to be paid up-front were the public housing redevelopment projects approved at the end of the first funding round. The decision to pay the full amount of these grants up-front was driven by a desire to avoid an expenditure shortfall in 2008–09 (see paragraph 2.63).

4.38 As shown in Figure 4.3, for the remaining 12 projects:

- in five cases, a portion of the approved grant was paid at the start of the project—typically on the signing of the funding agreement; and
- in seven cases, funds have only been (or are only scheduled to be) paid during the project—typically following the receipt and acceptance of performance reports.

Figure 4.3

Payment proportions for the examined projects



Source: ANAO analysis.

4.39 Overall, 20 per cent of the funds approved for these 12 projects was payable at the start of the projects and 80 per cent was payable in instalments during the life of the projects. The relatively high proportion of payments scheduled to be paid in instalments during the life of the funded projects is reflected in the fact that by mid-October 2010, the department had only paid out $106.6 million (33 per cent) of the total funds approved for the 49 projects with a signed funding agreement.

Reporting requirements

4.40 The funding agreements for each of the projects examined set out the nature of the reporting required. Typically, the required reports are:

- project performance reports—requiring recipients to report whether they have met specific deliverables, and typically require a statement on the project's progress;
- annual acquittal reports—audited special purpose financial statements designed to give assurance that the grant has been expended for the purposes provided;

- certificates of practical completion—providing evidence that the project, or a significant element of the project, is physically complete; and
- designated use reports—providing assurance, normally on an annual basis, that the project site[86] continues to be used for the purposes intended by the grant.

4.41 The analysis of the frequency and content of reporting requirements in the following paragraphs focuses on the requirements relating to project performance reports, as they are the most significant element of the reporting requirements.

Frequency of reporting

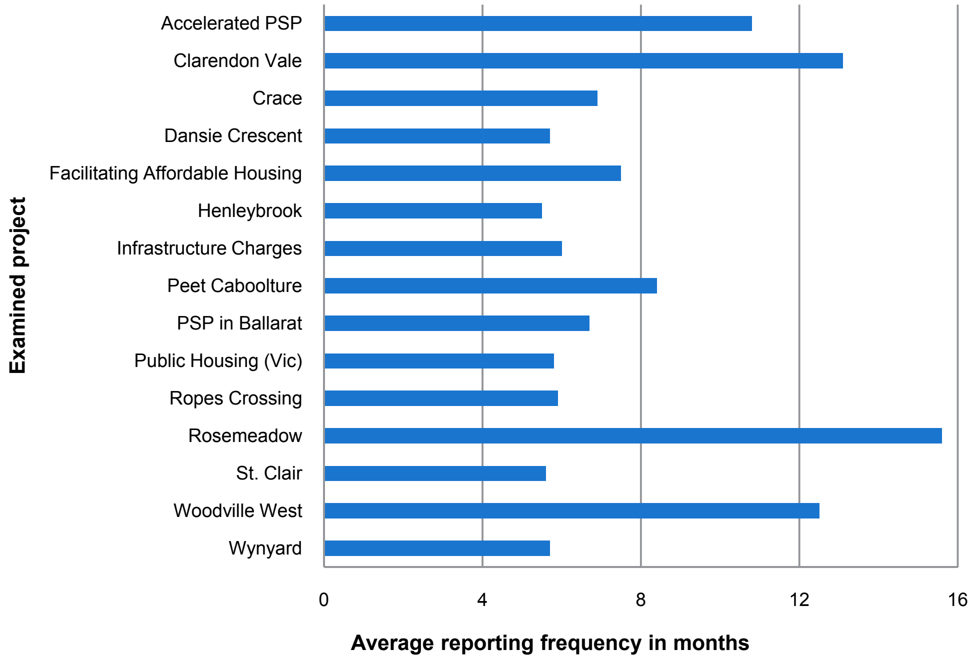
4.42 Obtaining timely information on the progress and performance of funded projects is an important part of effective grants administration. Such information can help inform decisions about providing further funding, or about reviewing the terms and conditions in the funding agreement with the grant recipient. Given the relatively long term nature of most of the projects funded from the HAF, ideally, performance reports should be obtained at least annually.

4.43 As shown in Figure 4.4, apart from three projects, the timing of the performance reporting requirements of the examined projects is relatively consistent. Excluding the three projects where the frequency is greater than 12 months, the average frequency of performance reporting for the projects examined is seven months. Generally, the first performance report was due between three to six months after the project commenced, and subsequent reports are typically due on a bi-annual or annual basis.

86 The project site and the designated uses were defined in each of the funding agreements.

Figure 4.4

Average performance reporting frequency for the examined projects



Source: ANAO analysis.

4.44 The scheduled timing of performance reporting requirements for three[87] of the projects was significantly less frequent than the requirements for the other projects examined. Specifically, for these projects:

- the average reporting period is greater than 12 months; and
- the elapsed time between certain reports is two years or greater.

4.45 The relatively high proportion of the sampled funding agreements (20 per cent) with less than desirable performance reporting frequencies highlights that there may be a number of the signed funding agreements with such reporting requirements.

[87] In November 2010, the proponent for one of these projects proposed a variation to the funding agreement designed to extend the project period by 27 months and increase the number of performance reports from six to 14. These changes reduce the average performance reporting frequency for this project from more than 12 months to approximately seven months. These changes align the average frequency of performance reporting for this project with most of the other projects that were examined. In June 2011, SEWPaC advised the ANAO that it had assessed the proposed variation as acceptable and was awaiting advice from the Office of the Minister for Sustainability, Environment, Water, Population and Communities regarding approval of the variation.

Content of reporting—infrastructure/combined projects

4.46 The standard funding agreement template used by FaHCSIA for projects involving capital works states that performance reports should contain:

- confirmation that the amount of savings passed to home buyers is tracking as planned;
- details of (and explanations for) any variances to savings assumptions;
- details of sales made, demonstrating prices and the savings delivered; and
- completed sustainable and accessible housing checklists.

4.47 Overall, most of the 41 funding agreements for projects involving infrastructure works examined require the provision of performance reports containing a level of information that is consistent with these requirements. However, the performance reporting requirements in the funding agreements for eight of the projects do not include the requirements to report details of variances to savings assumptions, sales made (demonstrating the savings delivered) or to provide the completed checklists. Further, in the case of two projects, the proponents are only required to warrant (or affirm in writing) the level of savings passed on to home buyers at the completion of the project, rather then throughout the project. The reasons for these variations from the standard requirements for these projects were not clear.

4.48 As well as submitting a range of information, reports and documents, each of the funding agreements for projects involving infrastructure works that were examined included requirements to affirm in writing the status of certain key activities. Obtaining targeted affirmations is an effective way of obtaining evidence to support the monitoring of a project's progress. Among the examined projects, the activities required to be affirmed include that:

- relevant approvals have been obtained;
- contracts with developers or builders are in place;
- project teams have been appointed;
- attendant construction work has commenced and, in some cases, is completed;
- the project remains on track to deliver the stated benefits; and
- required savings have been delivered to home buyers.

Content of reporting — reform projects

4.49 Unlike the projects involving capital works, there was no common performance reporting requirements contained in the standard funding agreement template for reform projects. While each of the eight reform projects examined were required to provide performance reports addressing progress against the stated project objectives, there was some inconsistent reporting requirements. The main differences observed were that the reporting requirements for:

- four projects do not include a requirement to report on the cost or time savings arising from the project;
- one project are based on the standard requirements used for infrastructure projects;
- two projects do not contain any written affirmations; and
- two projects are entirely based on affirmations and do not require the submission of any corroborating documentation.

4.50 As discussed at paragraph 4.28, SEWPaC is now responsible for the administration of the HAF, including managing the funding agreements. In order to obtain more timely and targeted information on the progress and performance of funded projects against the HAF's stated objectives, SEWPaC would need to reach agreement with the proponents of each of the affected projects to vary the funding agreement's terms and conditions.

Recommendation No.3

4.51 To improve performance reporting for the HAF, the ANAO recommends that SEWPaC review, and as necessary, seek to update the performance reporting requirements contained in funding agreements so that:

(a) the elapsed time between the submission of reports is no greater than twelve months; and

(b) details of progress toward project targets, including savings to home buyers, are regularly provided.

SEWPaC response

4.52 The department agreed with Recommendation No.3 to improve performance reporting for the HAF and, as necessary, seek to update the reporting requirements within funding agreements to enhance the timeliness and substance of reporting.

Monitoring the performance of the funded projects

4.53 An important part of effective grants administration is obtaining and actively assessing the information provided by grant recipients. The information should be used to monitor each project's performance, and help inform decisions on the provision of further funds to each project. For the HAF, the main mechanisms used by FaHCSIA to monitor the progress and performance of the approved projects are the reporting requirements set out in each funding agreement.

Monitoring reporting requirements

4.54 As reports are received, the relevant funding agreement manager at FaHCSIA was responsible for marking the relevant milestone record in FOFMS as received. After a report had been assessed as satisfactory, the milestone record in FOFMS was marked as complete. The HAF team developed a series of local guides to assist staff to deal with the management of reporting requirements. This included:

- a contract management strategy policy document which outlined the processes to be adopted by funding agreement managers when they encountered instances of non-compliance with milestone reporting requirements; and
- a series of task cards—setting out processes in relation to:
  - the receipt of performance and financial reports (including acquittals); and
  - releasing payments in FOFMS.

4.55 During the audit, FaHCSIA advised the ANAO that it had introduced an additional requirement for funding agreement managers to obtain the approval of the HAF section head before marking performance reports that relate to payment milestones as complete in FOFMS.

4.56 For each of the examined projects, FaHCSIA monitored the delivery of performance reports against the reporting requirements contained in the funding agreements. In particular, the ANAO observed that generally timely reminders were sent to grant recipients to advise them that reports were due (or in some cases, overdue). However, for one project the first reminder recorded was dated some six months after the first performance report was due. The ANAO also observed several examples of good practice in the department's assessment of performance reports. These included:

- requesting additional information from a grant recipient;
- adopting a checklist approach to provide evidence of the nature of the review undertaken (and the acceptance) of performance reports; and
- holding discussions with the grant recipient where poor performance was identified—in one case, the department took a range of steps in an attempt to resolve the issues; including sending a formal letter advising that further payments were being withheld and that the project was being placed under active senior management review.

4.57 For the most part, performance reports for the examined projects were received in accordance with the reporting requirements contained in the funding agreements. In June 2011, four of the 15 projects examined had an outstanding performance report. In three of these cases, departmental records indicated that the reports had not been received due to delays with the project. In one of these three cases, the report was more than eight months overdue. For the remaining project, departmental records indicated that the outstanding performance report was expected to be submitted by the project proponent once a proposed variation was approved.

Analysis of milestones

4.58 For each organisation funded by FaHCSIA, FOFMS contains three levels of inter-linked records:

- funding agreement—containing the terms and conditions relating to the relationship (or agreement) with the organisation;
- program schedules—containing details of the department's programs with which an organisation is involved; and
- agreement schedules—containing details of the activities being funded with the organisation.

4.59 The agreement schedules are the most relevant level of information for funding agreement managers. At this level, key details of each activity being funded are recorded and managed, including details of milestones[88] and of payments made.

4.60 The way in which payment milestones are set up in FOFMS determines the way in which payment requests are generated and sent to the FaHCSIA's Financial Management Information System (FMIS) for processing. As shown in Table 4.6, FaHCSIA has four options for setting up payment milestones in FOFMS.

Table 4.6

Methods used by FaHCSIA to set up payment milestones in FOFMS

Method	Description
Auto-release	Payment requests are automatically created in FOFMS and released to the FMIS once the funding agreement manager marks the milestone as received and accepted (or completed).
Date-driven	Payment requests are automatically created in FOFMS (on the nominated date), but are not forwarded to the FMIS until released by an authorised user.
Combined auto-release and date-driven	Payment requests are automatically created and released by the system when the due date is reached.[A]
Neither auto-release or date-driven	Payment requests are not generated until the funding agreement manager marks the milestone as received and accepted and the payment request is released by an authorised user.

Note A: Departmental policy recommends that this option is only used for low risk payments where there are no deliverables attached.

Source: ANAO analysis of FOFMS.

4.61 The ANAO's analysis of the payment milestones recorded in FOFMS for each of the approved HAF projects indicates that 96 per cent had the auto-release function enabled. The remaining four per cent had neither the auto-release function nor the date-driven functionality enabled. That is, in each case, payment requests were not released to FaHCSIA's FMIS for processing until the status of the attendant milestones was manually updated by the funding agreement manager.

4.62 The ANAO examined the milestone information relating to the HAF recorded in FOFMS.[89] Overall, as shown in Figures 4.5 to 4.7, the analysis

[88] FOFMS contains two types of milestones—payment milestones and non-payment milestones.

[89] The information was extracted as at 14 November 2010.

indicates that milestone information was being accurately maintained. Equally, this analysis indicates that monitoring activity was not always timely.

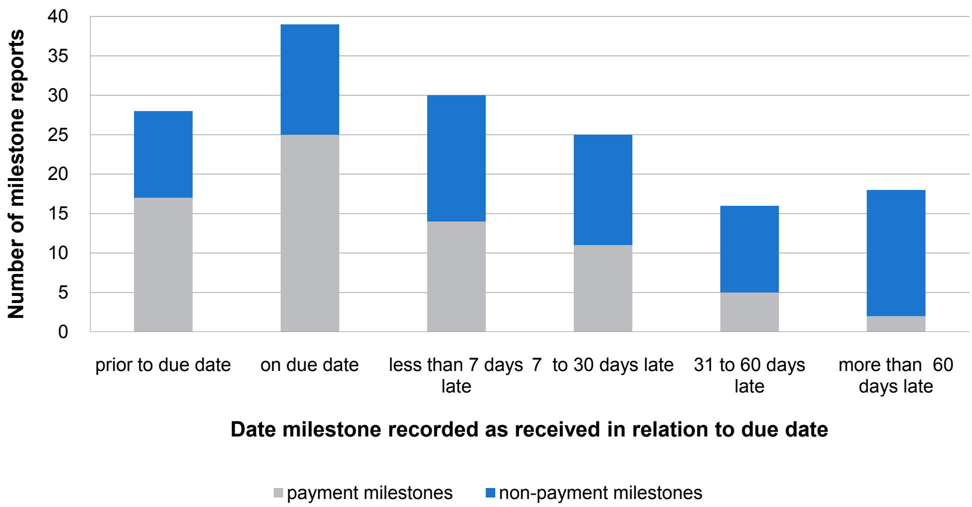
Analysis of milestones marked as received

4.63 Of the 888 milestones relating to approved HAF projects that were recorded in FOFMS, 201 had a due date for delivery or achievement that was prior to the date that the information was extracted. Of these, 156 (78 per cent) were marked as having been received.[90]

4.64 Approximately 40 per cent of the 156 milestones were marked as being received either before or on the due date. A further 35 per cent were recorded as being received within 30 days of the due date. On the other hand, 11 per cent were marked as received more than 60 days after the due date. This included four milestones marked as being received more than 120 days after the respective due dates. See Figure 4.5.

Figure 4.5

Analysis of timing of milestone reports marked as received



Source: ANAO analysis.

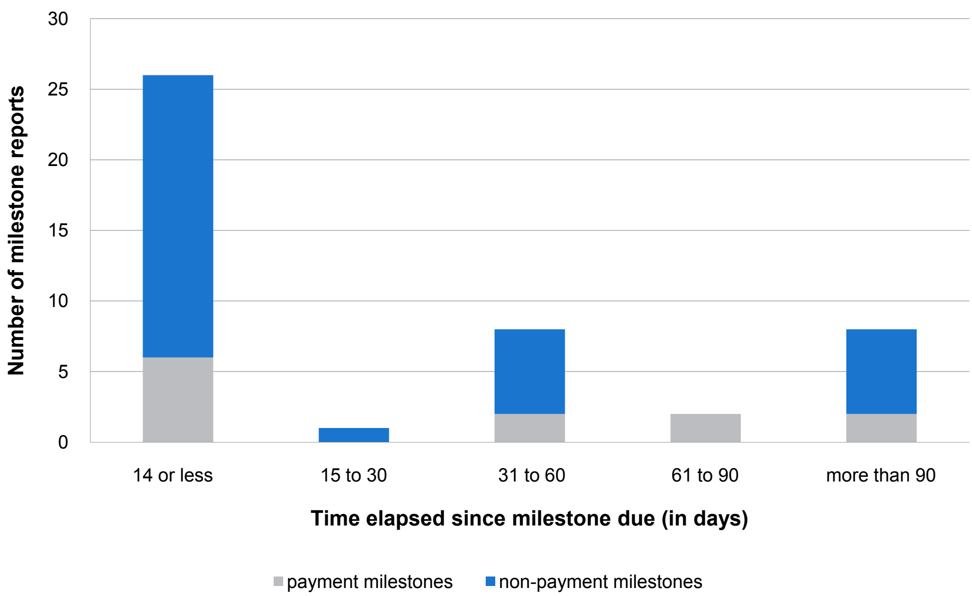
[90] One milestone is recorded as being received on 26 November 2009. However, the due date of the milestone is 31 July 2015. In this case, the recorded due date is considered to be an error and this milestone has been excluded from this analysis.

Analysis of overdue milestones

4.65 Twenty-six (58 per cent) of the 45 milestone reports that had not been marked as received were overdue by two weeks or less. However, eight (18 per cent) of these milestone reports were overdue by more than 90 days, including one milestone that was more than seven months overdue and one that was more than 12 months overdue. See Figure 4.6.

Figure 4.6

Analysis of overdue milestone reports



Source: ANAO analysis.

Analysis of time to accept milestones

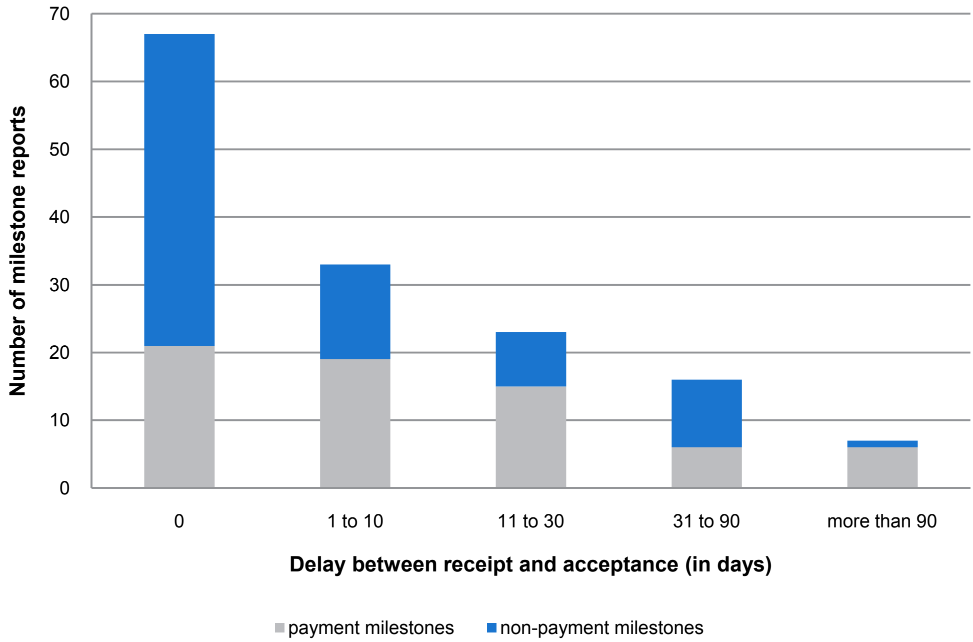
4.66 Of the 156 milestones that had been marked as received, 147 (94 per cent) had also been marked as accepted (completed) by FaHCSIA.[91] As shown in Figure 4.7, nearly half of those milestone reports were marked as accepted on the same day they were marked as received, and 85 per cent were marked as accepted within 30 days of being marked as received. However, five per cent of milestones were marked as accepted more than 90 days after they

[91] One milestone is recorded as being received on 9 June 2010, but accepted on 3 June 2010. In this case, one of the recorded dates is considered to be an error and the milestone was excluded from further analysis.

were marked as received, including two milestones that were marked as accepted 250 or more days after they were marked as received.

Figure 4.7

Analysis of time between receipt and acceptance of milestone reports



Source: ANAO analysis.

4.67 Of the nine milestone reports that were marked as received, but had not been marked as accepted:

- five were received in the two weeks prior to the report being run;
- three were received between four weeks and eight weeks prior; and
- one was received nearly five months prior.

Other monitoring mechanisms

4.68 As well as the monitoring of performance reports, in October 2010 the HAF team commenced providing a one-page summary to each grant recipient each month. Each recipient is provided with a copy of the report (for their project) and asked to confirm the accuracy of the details in the report. The report:

- describes key aspects of the funding agreement, including the agreement period, agreed outcomes, and amount of funding (by financial year);
- lists payments made; and
- summarises the status of the project, including the level of savings achieved.

4.69 The use of these reports adds rigour to the monitoring processes. An opportunity to further strengthen the utility of this process could be to add a section on current or emerging issues. In this regard, SEWPaC could:

- include the default of 'no issues—project on track' and ask each proponent to amend the default position as necessary; or
- ask each proponent to provide the department with a brief update on key issues arising.

4.70 The addition of this information would be a useful mechanism to alert SEWPaC to any new or emerging issues, particularly in cases that involve significant periods between the submission of the more formal performance reports.

4.71 During the audit, FaHCSIA advised the ANAO that the department had also commenced a series of visits to the sites of the approved projects. Feedback from project managers consulted as part of the audit indicated that the site visits were viewed as a positive development which would allow both parties to better understand the nature of the projects and the risks faced by each party. SEWPaC advised the ANAO that it has continued this program of project visits. By the end of May 2011, SEWPaC had inspected 22 projects, and advised that by the end of 2011, the department expects to have visited each project. In the future, SEWPaC advised that projects are expected to be visited at least once a year.

The progress of the examined projects

4.72 At the time of the audit, departmental records indicated that most of the examined projects were at a relatively early stage in terms of delivering on their expected outcomes.

Infrastructure or combined projects

4.73 Most of the infrastructure projects funded from the HAF are designed to develop new houses and to deliver savings to home purchasers over the course of several years. The average grant term for the 41 approved projects involving infrastructure works listed on FaHCSIA's website is 51 months (more than 4 years). The long-term nature of the infrastructure projects examined is underlined by the fact that only around 15 per cent of the performance reporting milestones had passed their due date by mid-November 2010. Further, the majority (around 70 per cent) of these performance reports are not due until 2012 or later.

4.74 Only one of the infrastructure projects examined had fully met its contracted deliverables. By June 2011, departmental records indicated that a further four of the infrastructure projects examined were relatively well advanced in terms of delivering the required infrastructure and savings. The extent of the progress made by two of these projects was confirmed during the ANAO's site visits. In particular, both projects had delivered some savings to home buyers, as well as contributing to the construction of community-based facilities.

Reform projects

4.75 Generally, the eight reform projects approved and with a signed funding agreement in place are for shorter periods of time than the infrastructure projects. The average grant period for these reform projects is 28 months, although three of the projects are for longer than three years. By June 2011, none of the four reforms projects examined had been completed. Submitted performance reports indicate that:

- three projects are proceeding well and remain broadly in line with initial forecasts and targets; and
- one project has delivered over $710 000 in savings—departmental records indicate that although the latest performance report demonstrated a significant improvement in the delivery of savings, the project continues to track well below expectations.[92]

Varying and terminating funding agreements

4.76 A key component of the active management of approved projects is the timely identification of the need to vary a project's reporting milestones,

[92] The ANAO observed that both FaHCSIA and SEWPaC have taken positive action to address the delays, including withholding milestone payments and advising the grant recipient (in writing) that the departments were concerned about the recipient's performance.

requirements, or payment schedules. Such changes (known as variations) are usually necessary to address changes to a project's status or scope, particularly when the grantee is experiencing difficulties meeting milestones. In certain cases, approved projects may need to be terminated. This will occur if a grant recipient has breached the terms and conditions of the funding agreement, if there has been continuing poor performance, or if the grantee is no longer able to deliver on the agreed outcomes.

Managing variations

4.77 Variations typically have two origins—variations requested by the grantee and variations proposed by the department. In December 2009, the then Minister for Housing agreed to FaHCSIA's suggestion that the department would approve all minor variations to funding agreements, with the Minister's approval to be sought for any variations that changed the scope or the end date of projects.

4.78 By late September 2010, FaHCSIA had processed 28 variations to the funding agreements for approved HAF projects, including variations affecting four of the projects examined by the ANAO. Departmental records indicate that 25 of these variations related to amendments to the schedules of milestones, and that in three of these amendments the life of the project was extended (that is, the end date was moved back). With one exception, each of the variations examined was appropriately authorised. There was no evidence of Ministerial approval for one of the variations examined that involved deferring the end date of the project from 31 October 2010 to 20 December 2010.

Managing terminations

4.79 Like variations, terminations generally have two sources—terminations requested by grantee and terminations proposed by the department. According to the HAF's contract management strategy policy document, the department's policy is to prepare a letter to terminate a funding agreement if a milestone report is not received ten days after a formal breach notice is issued. The strategy also states that the Minister is to be advised about the decision to terminate the funding agreement.

4.80 By mid-October 2010, only one of the 50 signed funding agreements had been terminated. In this case, FaHCSIA terminated the funding agreement because the project's proponent advised, in July 2010, that it was unable to deliver the agreed outcomes in the timeframes set out in the agreement. The

Minister was advised of the project's termination in July 2010. SEWPaC advised the ANAO that the $170 000 advanced for the project was repaid to the Australian Government in October 2010.

Conclusion

4.81 Departmental records indicate that most of the examined projects were at a relatively early stage in terms of delivering on their expected outcomes. Only one of the infrastructure projects examined has fully met its contracted deliverables. By June 2011, departmental records indicated that a further four of the infrastructure projects examined were relatively well advanced in terms of delivering the required infrastructure and savings. None of the four reforms projects examined had been completed.

4.82 The funding agreements for the examined reform projects were each signed more promptly then the projects involving infrastructure works. This reflects the fact that projects involving infrastructure works were larger and more complex and, as a result, the terms and conditions in the funding agreements were more detailed. The longer average elapsed times for the projects involving infrastructure works was also due to the fact that the project proponents in the first funding round did not have an opportunity to familiarise themselves with the funding agreement's terms and conditions prior to receiving the formal offer of funding.

4.83 For the most part, the funding agreements examined contained terms and conditions that were commensurate with the size and nature of the funded projects and that aligned with the objectives of the HAF. In particular, each funding agreement described the HAF's objectives; the funded project's goals; measures to assess the performance of the grantee; the payment structure adopted; and the performance and financial acquittal reporting requirements. However, some funding agreements did not clearly set out details of project outcomes in terms of the HAF's objective. In addition, the frequency of reporting for some projects is low, with an average reporting period greater than 12 months and elapsed time between certain reports of two years or greater. Further, there was considerable variation in the reporting requirements contained in the funding agreements among the reform projects examined. Taken together, these shortcomings in funding agreements increase the risk that the department is not able to accurately assess the contribution individual projects make towards the achievement of the HAF's objectives.

4.84 FaHCSIA had processes in place for monitoring the progress of the approved projects, including delivery of performance reports against the reporting requirements contained in the funding agreements. For the most part, the performance reports for the examined projects were received in accordance with these reporting requirements. In addition, milestone information relating to the HAF was being accurately maintained in FOFMS, although the ANAO's analysis indicates that monitoring activity was not always timely.

5. Performance Reporting

This chapter examines FaHCSIA's processes for monitoring and reporting the performance of the HAF.

Introduction

5.1 Monitoring and reporting the performance of grant programs is an important part of the Australian Government's accountability requirements, providing a sound basis to assess whether the programs are being administered effectively, and enabling assessments to be made about whether programs are delivering the outcomes expected by the Australian Government. Performance monitoring and reporting can contribute to successful program management by helping to inform decision-making, including decisions on the allocation of resources.[93]

Audit approach

5.2 The ANAO sought to determine whether FaHCSIA was actively measuring the performance of the program. In particular, the ANAO examined whether FaHCSIA:

- had developed, and was publicly reporting on, measures addressing the HAF's performance against its objectives and intended outcomes; and
- regularly monitored and reported to management on the performance of the HAF.

Measuring and reporting the HAF's performance

5.3 FaHCSIA's Standard Performance Framework (SPF) requires that the performance of its grant programs is measured across three inter-related levels:

- Key Performance Indicators (KPIs);
- program management indicators; and
- service delivery indicators.

---

[93] ANAO, Audit Report No. 25, 2010–11, *Administration of the Trade Training Centres in Schools Program*, p.89.

5.4 Prior to the launch of the first funding round, FaHCSIA developed, under the auspices of the SPF, a program logic document and a draft performance framework. The program logic document described the key elements of the HAF program, including the program's intermediate and high-level outcomes. The draft performance framework listed potential indicators for measuring the performance of the HAF against the key elements contained in the program logic document.

5.5 The program logic document included the following high-level outcomes for the first funding round of the HAF:

- reduction in costs for new home buyers;
- increased supply of new housing; and
- reduction in holding costs for new homes.

5.6 The performance framework identified a number of potential performance indicators likely to be of assistance in managing the performance of the HAF, including:

- the number of dwellings benefiting from HAF contributions;
- the number of funding agreements signed or under negotiation;
- the value of signed funding agreements;
- the number of projects approved, commenced or finalised; and
- the number of grant recipients that satisfy their contractual requirements.

5.7 The department's 2009–10 Portfolio Budget Statements (PBS) included three performance indicators relating to the HAF:

- proportion of dwelling/lots sold that deliver the savings required under project funding agreements;
- proportion of projects in which goals are fully met; and
- proportion of sites/dwellings for which practical completion certificates have been accepted.[94]

---

[94] Department of Families, Housing, Community Services and Indigenous Affairs, *Portfolio Budget Statements 2009–10*, p. 66.

5.8 The results reported against each of these indicators in FaHCSIA's 2009–10 Annual Report are shown in Table 5.1.

Table 5.1

Analysis of HAF performance reported in FaHCSIA's 2009–10 Annual Report

Performance indicator	Reported performance
Proportion of dwellings/lots sold that deliver the savings required under the project funding agreement	124 home buyers received an average saving of $17 806 passed on from the HAF funding.
Proportion of projects in which goals are fully met	One project has been completed to date. 11 home buyers have received $10 000 savings from that project.
Proportion of sites/dwellings for which practical completion certificates have been accepted	One practical completion certificate has been received. Due to the nature and size of capital works projects, it usually takes more than 12 months to complete all work. Some smaller projects could provide practical completion certification in late 2010.

Source: FaHCSIA Annual Report 2009–10 (pp.60–61).

5.9 FaHCSIA's 2010–11 PBS contained only one indicator to measure the performance of the HAF.[95] This indicator was equivalent to the first indicator in the 2009–10 PBS. The 2010–11 PBS stated that the two indicators (relating to project goals and completion certificates) had been removed as they represented program information generally, rather than performance against the program objectives.

5.10 The objectives of the HAF are to increase the supply of new houses and make housing more affordable. The performance indicator relating to the delivery of savings included in the 2009–10 and 2010–11 PBS (and reported against in the 2009–10 Annual Report) was consistent with only the second of these objectives. At the time that responsibility for the HAF was transferred to SEWPaC, FaHCSIA had not developed an indicator designed to provide a measure of performance against the other objective, namely increasing the supply of new houses.

5.11 SEWPaC's 2010–11 Portfolio Additional Estimates Statements and 2011–12 PBS include two performance indicators relating to the HAF:

---

[95] Department of Families, Housing, Community Services and Indigenous Affairs, *Portfolio Budget Statements 2010–11*, p. 60.

- number of dwellings/lots that have been reduced in price and savings have been passed to home buyers as a result of HAF projects —this indicator measures performance against the objective of making houses more affordable; and
- number of dwellings/lots that have been brought forward as a consequence of the HAF—this indicator measures performance against the objective of increasing the supply of new houses.[96]

Evaluating the effectiveness of the HAF

5.12 To complement the monitoring and reporting of a grant program's performance, the overall effectiveness of the program should be periodically assessed. In relation to the HAF, such an assessment could include an evaluation of whether:

- the program has been effective in meeting its objectives (including an assessment of value for money) and has contributed to the Australian Government's broader housing-related outcomes;
- there is a need to expand (or reduce) the program; and
- the costs of administering the program are reasonable.

5.13 The Australian Government's decision to establish the HAF indicated that a mid-term evaluation of the program would be undertaken in the third year of the program (2010–11), and that a final evaluation would be undertaken at the conclusion of the program. At the time responsibility for the administration of the HAF was transferred to SEWPaC, FaHCSIA had not undertaken the proposed mid-term evaluation. However, as indicated at paragraph 3.3, FaHCSIA did commission a post-implementation review (PIR) of the HAF towards the end of the first funding round. The PIR was designed to:

- examine the extent to which the HAF had met its stated objectives (as per the grant guidelines); and
- advise on possible program adjustments to inform the conduct of future funding rounds.

---

[96] Department of Sustainability, Environment, Water, Population and Communities, *Portfolio Additional Estimates Statements 2010–11*, pp. 58-61 *and Portfolio Budget Statements 2011–12*, p.47.

5.14 The report of the PIR[97] identified a number of opportunities for improvement in the administration of the program. The report did not, however, include an assessment of the program's effectiveness, nor did it evaluate the program's performance. SEWPaC advised the ANAO that, due to delays with the commencement of some projects, the department had decided that the conduct of the mid-term evaluation would now be undertaken in early 2012. The department advised that this timing will help ensure that the program evaluation will capture the proposed improvements to the performance management and reporting requirements.

Management reporting

5.15 Prior to responsibility for administering the HAF passing to SEWPaC, FaHCSIA was capturing and monitoring a range of management information about the HAF. Specifically, the key management reports produced by FaHCSIA are outlined in Table 5.2.

97 Ernst and Young, op. cit.

Table 5.2

Description of HAF management reporting

Title of management report	Frequency	Description of content of management report
Appropriations Variance Analysis	Monthly	Contains analysis and commentary on variances between year-to-date budgeted and year-to-date actual expenditure.
Housing Initiatives Scorecard	Monthly	Contains target and actual information for each of the following measures: • funding committed; • number of projects approved; • number of projects signed; and • number of dwellings/lots for each approved project.
Ready Reckoner	Monthly	A summary (in written form) of the financial information contained in the monthly Housing Initiatives Scorecard.
Housing Group Administered	Monthly	Provides details to assist each section manage its budget versus actual position (both year-to-date and full year forecast) and to prepare comments for reporting to the department's Executive Management Group.
Situation Report	Monthly	Provides a summary of the status of the department's programs. For the HAF the report provides information against the following measures: • overall progress; • key milestones; • key achievements (savings passed on); and • expenditure levels.
Housing Affordability Fund	Fortnightly	Provides a breakdown of the budget and committed funds across financial years, details of payments made and a breakdown (by state) of: • approved projects; • types of projects; and • signed agreements. The report also contains details of the total projected number of dwellings to be brought forward and the total number of dwellings projected to be delivered with savings.

Source: ANAO analysis.

5.16 Overall, these management reports provided useful information on the performance of the HAF. In particular, they contained information addressing the potential performance indicators developed during the implementation of the HAF (see paragraph 5.6). Importantly, the reports included a mix of information on the financial performance and position of the program (such as information relating to the budget, expenditure and commitment levels), as well as information relating to the program's deliverables. Table 5.3 details the key information contained in management reports, together with a summary of the results to date.

Table 5.3

Analysis of key information in management reports

Information reported	Result to date [A]
2010–11 expenditure	Budget: $63.3 million Actual: $19.1 million
Number (and value) of approved projects	75 ($447.4 million)
Number (and value) of funding agreements signed and executed	68 ($397.9 million)
Number of dwellings or lots involved in approved reform projects	Target: 378 290 Actual: 369 348
Number of dwellings or lots involved in approved infrastructure projects	Target: 13 302 Actual: 10 728
Number of homebuyers delivered savings	749
Amount of savings passed on to homebuyers	$11.9 million
Number of dwellings where construction brought forward	Projection: 35 267

Note A: The results to date amounts are as at 20 May 2011, except the figures for the number of dwellings involved in reform projects, which are as at the end of August 2010.

Source: ANAO analysis of departmental management reports.

Conclusion

5.17 FaHCSIA was collecting and analysing useful information on the performance of the HAF, and distributing this information in management reports. In particular, these management reports contained information addressing the potential performance indicators developed during the implementation of the HAF. Importantly, the reports included a mix of information on the financial performance and position of the program, as well as information relating to the program's deliverables.

5.18 FaHCSIA developed and reported against a performance measure designed to assess progress against only one of the HAF's two objectives, namely delivering savings to home buyers. At the time that responsibility for the program was transferred to SEWPaC, FaHCSIA had not developed a measure of performance against the other objective, increasing the supply of new houses. SEWPaC's 2010–11 Portfolio Additional Estimates Statements and its 2011–12 PBS address this issue by including indicators designed to address performance against both of the HAF's objectives.

Ian McPhee

Auditor-General

Canberra ACT

3 November 2011

Appendices

Appendix 1: Agencies' Responses

The Department of Families, Housing Community Services and Indigenous Affairs

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) notes the findings of the report and accepts Recommendation No.1.

FaHCSIA's Program Funding Manual requires that advice to the Minister must include information on the appraisal process for a grant program. The department will take the ANAO's comments and recommendations into account in further development of the manual and guidance to staff of the department.

FaHCSIA seeks to provide high quality advice to ministers. FaHCSIA accepts that, in some instances, advice to the Minister could have been more complete and should have included reference to the Commonwealth Grant Guidelines.

FaHCSIA notes the report's comments relating to errors found in the assessment tool developed for the first funding round. FaHCSIA is very disappointed that the assessment tool contained errors. The department expected that a contractor with expert skills in this area would have delivered a product that did not require FaHCSIA to examine the tool for errors.

The Department of Sustainability, Environment, Water, Population and Communities

The Department of Sustainability, Environment, Water, Population and Communities (SEWPaC) accepts the key findings and recommendations of the ANAO report and considers that the report provides a constructive basis to strengthen the delivery and performance management of the Housing Affordability Fund.

It is noted that whilst the audit is confined to the Department of Families, Housing, Community Services and Indigenous Affairs' administration of the program, the findings are consistent with the actions taken by SEWPaC to strengthen delivery and performance management and reporting arrangements since assuming responsibility for the HAF in October 2010.

The department agrees with Recommendation No.2 in relation to strengthening performance management arrangements for the HAF. The department is undertaking a program of activity to improve performance management, reporting and compliance requirements within existing funding agreements. In addition, the department has developed a funding agreement template which clarifies performance targets and reporting obligations and is working to apply this, where possible, as a model contract across all projects with an infrastructure component—a number of contracts have already been renegotiated to reflect this model. The department will continue to pursue improvements to existing funding agreements, noting that the report acknowledges these changes constitute contractual variations which require agreement from the affected project proponents.

The department agrees with Recommendation No.3 to improve performance reporting for the HAF and, as necessary, seek to update the reporting requirements within funding agreements to enhance the timeliness and substance of reporting. In addition to the advances acknowledged in the report, actions currently underway to further improve performance reporting include a review of reporting requirements across funding agreements and the establishment of standardised reporting templates, development of a compliance regime and guidance to support the collection of performance information. These build on quality assurance processes implemented by the department in relation to payments and overall contract administration, which has resulted in greater scrutiny of, and interaction with, funding recipients.

Appendix 2: Categories of Projects Funded from the HAF

Category	Description	Priorities	Intended outcomes
Infrastructure	Funding provided as a contribution towards the cost of infrastructure works associated with a housing development, including works necessary to increase the amount of affordable housing being built in a development or to bring forward a housing development.	Proposals that make the greatest impact on the supply of entry-level or moderately priced housing. Projects designed to deliver greenfield and infill developments in areas of high demand. In addition, the second funding round guidelines also state that preference would also be given to infrastructure projects that involve: • transit-oriented developments; or • public housing estate redevelopment.	The guidelines state that proposals for infrastructure funding must describe how they will reduce the cost of new homes and how the savings to be passed on to the purchasers of new homes will be measured.

Category	Description	Priorities	Intended outcomes
Reform	Funding provided to help achieve reforms in planning and development assessment processes designed to reduce costs to homebuyers, including through reducing the time it takes to bring houses to the market.	The priorities for reform projects are not explicitly covered in the first funding round guidelines. However, the guidelines in the second funding round state that priority will be given to reform proposals that are designed to reduce the time it takes to approve development applications. The types of projects that might qualify for HAF funding are listed in the second funding round guidelines as: • undertaking master and structural planning; • updating local planning schemes; • processes supporting land aggregation; • undertaking planning reform; and • improving processing times.	The guidelines in the first funding round state that <u>all</u> projects must specify how the proposal will reduce the cost of new housing and how the savings to home buyers will be measured. The second funding round guidelines state that proposals for reform funding must demonstrate how the project will make houses in a particular area more affordable.
Combined	The grant guidelines used in both funding rounds state that funding may also be provided to combined projects. That is, proposals that involve both infrastructure-related activities, as well as the reform of planning and development assessment practices.	N/A	N/A

Source: HAF Guidelines for the first and second funding rounds.

Appendix 3: The Australian Government's Grants Administration Framework

History of the framework

1. Prior to 2007, there was no official guidance available to Australian Government agencies on the administration of grant programs. Estimates Memorandum (EM) 2007/50, issued on 21 December 2007, contained a series of instructions relating to the Australian Government's discretionary grant programs. In December 2008, in response to the July 2008 report of the *Strategic Review of the Administration of Australian Government Grant Programs*, the Australian Government agreed to a range of reforms to the administration of grant programs, including the development of an improved framework for grants administration. In broad terms, this framework is designed to promote more transparency and accountability in decision-making relating to grants. This includes emphasising the importance of assessing and selecting grant recipients that represent the best value for money in the context of the grant program's objectives.

2. The implementation of these reforms occurred progressively. On 16 January 2009, the Finance Minister issued EM 2009/09, which repealed the requirements in EM 2007/50 and set out a range of new and amended requirements relating to grant approval and reporting. Subsequently, on 1 July 2009, a new policy and legislative framework for the administration of grant programs was introduced. This framework incorporates the requirements contained in EM 2009/09, as well as a range of further requirements and guidance. The new framework comprises:

- new requirements relating to grants (as well as continued application of the general requirements) under the financial management framework regulating the expenditure of public moneys contained in the *Financial Management and Accountability Regulations 1997* (FMA Regulations); and
- the promulgation of the Commonwealth Grant Guidelines (CGGs)—the mandatory requirements and the principles of sound grants administration contained in the CGGs are outlined below.

Mandatory agency requirements
Agencies are responsible for advising Ministers on the requirements of the CGGs, and must take appropriate and timely steps to do so where a Minister exercises the role of financial approver in grants administration.
Officials involved in grants administration must ensure that they: • always take care to behave in accordance with the law (including regulations), government policy, agency rules (for example, Chief Executive Instructions) and with applicable funding agreements; • keep commercially sensitive information secure and never use it for personal gain or to prejudice grants administration processes; • disclose information that the Government requires to be notified; and • disclose to their agency any form of current or prospective personal interest that might create a conflict of interest in grants administration.
An agency must publish, on its website, information on its individual grants no later than seven working days after the funding agreement for the grant takes effect. Other requirements apply where agencies determine that publishing grant information in accordance with the CGGs is contrary to legislative requirements, the specific terms of a funding agreement or could adversely affect the achievement of government policy outcomes.
Agencies must develop grant guidelines for new grant programs, and make them publicly available (including on agency websites) where eligible persons and/or entities are able to apply for a grant under a program.
Agencies must ensure that grant guidelines and related operational guidance are in accordance with the CGGs.
Where a change is proposed to the guidelines for an existing grant program, agencies should consult with Finance on whether the proposed change will give rise to the need for the Expenditure Review Committee to consider the guidelines.
Mandatory Ministerial requirements
Where a Minister exercises the role of a financial approver relating to a grant, they will not approve a grant without first receiving agency advice on the merits of the proposed grant.
Each time a Minister, who is a Member of the House of Representatives, approves a grant in respect to their own electorate, the Minister will write to the Finance Minister advising of the details. In particular: • If the agency recommended that the grant be approved, it will be sufficient to provide the Finance Minister with a copy of the correspondence advising the recipient of the grant. If there is no correspondence, the Minister must write to the Finance Minister advising of the decision as soon as practicable after it is made. • If the approval related to a grant that the agency had recommended be rejected, the Minister's written advice to the Finance Minister must also include a brief statement of the basis for the approval.

Mandatory Ministerial requirements (cont)
By 31 March each year, Ministers must provide the Finance Minister with a report on all instances in the preceding calendar year in which the Minister decided to approve a grant which the agency had recommended be rejected, including a brief statement of the basis of the approval of each grant. The annual report must also include any such grants approved in the Minister's own electorate.
Principles of sound grants administration
• **Robust planning and design**—relevant issues, including the identification and consideration of risks, have been addressed and built into the design of granting activities. • **An outcomes orientation**—grants processes should be focused on the delivery of outcomes and there should be a performance framework that supports measurement against outcomes. • **Proportionality**—the design of grants processes should be commensurate with the scale, nature, complexity and risks involved. • **Collaboration and partnership**—relationships between the agency, grant recipients and other relevant stakeholders should be constructive and cooperative. • **Governance and accountability**—appropriate governance and accountability arrangements should be built into grants administration processes, including clarity of roles and responsibilities, clear and informative policies, procedures and guidelines and the proper maintenance of relevant records and documentation. • **Probity and transparency**—grants processes are conducted honestly, impartially and with integrity and sufficient evidence is maintained to support decision-making. • **Achieving value with public money**—processes are to be planned and designed to achieve the best value with the available public money, for example, by considering value for money criterion in the appraisal of grant applications and by the careful identification and management of the supporting administrative costs.

Source: Commonwealth Grant Guidelines.

3. The Department of Finance and Deregulation has issued the following Finance Circulars to provide guidance on the requirements of the CGGs and the related requirements in the FMA Regulations:

- 2009/03—Grants and other common financial arrangements;
- 2009/04—Grants reporting requirements; and
- 2009/05—Commitments to spend public money.[98]

[98] Finance Circular 2009/05 was replaced by Finance Circular 2011/01, which was issued on 31 March 2011.

Appendix 4: Details of Examined Projects

Name of project	Project proponent	State	Type of project	Project objectives	Funding ($'m)
Accelerated Precinct Structure Plans	Growth Areas Authority	Vic	Reform	Complete 31 Precinct Structure Plans, which are to be used as the principle basis for assessing development applications in the relevant areas. The implementation of this streamlined process for development planning and approvals will result in savings of at least 12 months in the time taken currently.	8.5
Clarendon Vale	Department of Health and Human Services	Tas	Public housing redevelopment	Subdivide Government owned land, improve public infrastructure and construct a community facility. Develop 110 residential lots for sale to eligible purchasers. A saving of $45 454 is to be passed on to eligible purchasers for each of the 110 lots.	5.0
Crace	Land Development Agency	ACT	Infrastructure	Construct the major collector road and bus route for the suburb of Crace and develop and sell 1591 dwellings, which will include at least 239 dwellings that are sold to eligible purchasers for no more than the Maximum Sale Price (as defined) and at least 250 dwellings that are sold with a saving of $15 525 passed on to eligible purchasers.	7.6
Dansie Crescent	City of Salisbury	SA	Infrastructure	Undertake capital works to support the development of 11 dwellings. The final purchase price of each dwelling is to be reduced by $10 000.	0.1
Facilitating Affordable Housing	City of Sydney	NSW	Reform	Develop a regional plan for the redevelopment of 20 opportunity sites for affordable housing across inner city Sydney.	0.4

Name of project	Project proponent	State	Type of project	Project objectives	Funding ($'m)
Henleybrook	Housing Authority	WA	Infrastructure	Construct infrastructure works to enable the delivery of 542 new lots, of which a minimum of 345 lots will be to sold to eligible purchasers with a saving of $20 024 to be passed on for each lot sold	6.9
Infrastructure Charges Subsidisation	Brisbane City Council	Qld	Reform	Stimulate growth in new, moderately priced housing by offering an additional 15 per cent subsidy as part of the Council's existing Incentive Package subsidisation scheme. The additional subsidy is to be provided for a minimum number of 1000 dwellings or lots and is to be targeted to developments where dwellings will be sold to eligible purchasers at least 10 per cent below the median market price.	5.7
Peet Caboolture	Moreton Bay Regional Council	Qld	Combined	Introduce and implement RiskSMART, a planning reform process which will enable low risk development applications to be quickly assessed against planning scheme provisions. Also, construct a vehicle, bike and pedestrian bridge over a rail line and deliver key infrastructure that will help ensure that affordable housing lots are made available to eligible purchasers at a reduced cost. 100 residential lots are developed at a saving of $15 000 per lot to be passed on to eligible purchasers.	10.5
Precinct Structure Planning in Ballarat	City of Ballarat	Vic	Reform	Complete Precinct Structure Plans, in three stages (as described), for four areas of the Ballarat West Growth Area.	1.9

Name of project	Project proponent	State	Type of project	Project objectives	Funding ($'m)
Public housing redevelopment	Department of Human Services	Vic	Public housing redevelopment	Construct 7364 dwellings (across three developments in Melbourne), of which 3461 are available for sale as private dwellings. Savings equal to (or exceeding) five per cent of the market value are to be passed on to eligible purchasers of at least 10 per cent of the total number of dwellings constructed.	159.4
Ropes Crossing	Delfin Lend Lease	NSW	Infrastructure	Construct a multi-purpose Community Resource Hub facility and 240 residential lots. A saving of $21 500 is to be passed on to eligible purchasers for each of the lots that are sold.	3.9
Rosemeadow	Land and Housing Corporation	NSW	Public housing redevelopment	Undertake civil works to construct new drainage systems and linking road works to service existing parcel of land under development. At least 117 properties located at the site are to be made available for private sale (at a discount) to eligible purchasers.	9.9
St. Clair	City of Charles Sturt	SA	Combined	Implement a policy reform strategy to reduce the time taken by the City of Charles Sturt to assess development applications from 59 days to 10 days or less. Additionally, remediate a former factory site, construct playing fields, and construct a wetlands precinct. Deliver savings for 26 dwellings created in stage one of the development and 158 dwellings created in stage two.	12.8
Woodville West	Minister for Housing	SA	Public housing redevelopment	Redevelop a residential estate to construct 424 new residential dwellings with no less than 106 dwellings made available for sale to eligible purchasers. The sale of each of the 106 dwellings will involve a saving of $89 622 being passed on to the eligible purchaser.	9.5

Name of project	Project proponent	State	Type of project	Project objectives	Funding ($'m)
Wynyard	Director of Housing	Tas	Infrastructure	Undertake the development of a residential estate comprising 15 level allotments. The 15 lots are to be sold to eligible purchasers with savings of $16 000 per lot.	0.3

Source: ANAO analysis.

Index

A

Assessment

change in risk weightings in the first funding round tool, 62–65

decisions not consistent with program guidelines, 24, 27, 29, 76, 93, 95

formulaic errors in the first funding round tool, 23, 26, 62, 66–67, 77

use of assessment tools, 20, 23, 26, 60–67, 77, 90–91, 93–94, 98

Audit objective, 21, 46

Audit recommendations, 97, 112, 119

C

Commonwealth Grant Guidelines, 24, 26, 28–29, 45–46, 79, 82, 93, 96–98, 101, 103–104, 106

Council of Australian Governments, 29, 81, 95

E

Estimates Memorandum, 45–46, 68, 79, 103

Evaluating effectiveness, 134–135

F

FaHCSIA's online funding management system, 103–104, 120–121

managing milestones, 31, 68, 100–101, 120–125, 127–128, 130, 136

Financial Management and Accountability Regulations, 46, 52, 70, 79, 82, 90, 93, 96–97

Funding agreements, 16–17, 21–25, 30, 41–42, 47, 53–54, 68, 73–74, 84, 89–90, 100–122, 126–130, 132–133, 136–137

negotiation of, 21, 24, 51, 73, 77, 90, 100–102, 132

reporting requirements, 25, 30–31, 80, 105, 107, 116–121, 129–130, 135

variations and terminations, 128

Funding approvals, 16, 22, 24, 27, 29, 40, 45–46, 63, 65, 68–70, 72, 78–79, 82, 84, 86, 90, 95–97, 101, 104, 117, 120

recording the basis of decisions, 30, 45–46, 96–98

Funding recommendations, 20, 24, 29–30, 52, 68–70, 76, 79, 82, 92–93, 95–98

G

Grants administration, 25, 44–46, 50, 52, 55, 60, 68, 79, 96, 105, 116, 120, 131

ANAO Better Practice Guide, 30, 53–55, 58–59, 68, 70, 77, 83–84, 87, 94, 96, 106

H

Housing affordability

factors influencing, 37

stress, 15, 16, 22, 38–40

L

Level of committed funds, 17, 41–42, 136

M

Management reporting, 31, 47, 135–137

O

Objectives of the Housing Affordability Fund, 24, 30, 40, 74, 101, 129, 133

measuring the contribution of funded projects towards, 25, 31, 107, 111, 129

P

Payments, 30, 47, 100–101, 103, 105, 113–115, 120–122, 126–129, 136

Performance indicators, 31, 112, 131–134, 136–138

Program responsibility, 17, 22, 40, 47, 111

Public housing redevelopment projects

addressing the expenditure shortfall at end of the first funding round, 20–21, 27, 43, 71–73, 78, 114

funding urban redevelopment in Victoria, 21, 28, 44, 80

R

Risk management

assessing project risks, 47, 63, 69, 75, 82, 89, 91, 93

managing the program's risks, 28, 52–53, 80, 82–83, 97

S

Savings to home buyers, 16–18, 22–23, 31–32, 41, 58, 63, 66, 68, 74, 76, 89, 92, 93–94, 102, 107–112, 118–119, 126–127, 129, 132–134, 136–137

low level of estimated savings, 25, 28, 90, 99

savings not quantified in funding agreements, 23, 25, 28, 30, 99, 107–109

Selection criteria, 18–20, 23–24, 26–29, 52, 55–56, 58–60, 62, 68, 76–79, 82, 84–91, 93–94, 97– 98

common characteristics, 59, 87

eligible organisations, 19, 57, 59, 87–88

proposals not assessed against, 27, 74–76, 89

waiving of, 26, 28, 54, 57, 77, 83, 94, 98

Series Titles

ANAO Audit Report No.1 2011–12
The Australian Defence Force's Mechanisms for Learning from Operational Activities
Department of Defence

ANAO Audit Report No.2 2011–12
Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2010 Compliance)

ANAO Audit Report No.3 2011–12
Therapeutic Goods Regulation: Complementary Medicines
Department of Health and Ageing

ANAO Audit Report No.4 2011–12
Indigenous Employment in Government Service Delivery

ANAO Audit Report No.5 2011–12
Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework

ANAO Audit Report No.6 2011–12
Fair Work Education and Information Program
Department of Education, Employment and Workplace Relations

ANAO Audit Report No.7 2011–12
Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund
Department of Infrastructure and Transport

ANAO Audit Report No.8 2011–12
The National Blood Authority's Management of the National Blood Supply
National Blood Authority

ANAO Audit Report No.9 2011–12
Indigenous Secondary Students Accommodation Initiatives
Across agencies

ANAO Audit Report No.10 2011–12

Administration of the National Partnership on Early Childhood Education

Department of Education, Employment and Workplace Relations

Current Better Practice Guides

The following Better Practice Guides are available on the ANAO website.

Public Sector Audit Committees	Aug 2011
Human Resource Information Systems	
Risks and Controls	Mar 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities –	
Delivering agreed outcomes through an efficient and optimal asset base	Sep 2010
Implementing Better Practice Grants Administration	June 2010
Planning and Approving Projects	
an Executive Perspective	June 2010
Innovation in the Public Sector	
Enabling Better Performance, Driving New Directions	Dec 2009
SAP ECC 6.0	
Security and Control	June 2009
Preparation of Financial Statements by Public Sector Entities	June 2009
Business Continuity Management	
Building resilience in public sector entities	June 2009
Developing and Managing Internal Budgets	June 2008
Agency Management of Parliamentary Workflow	May 2008
Public Sector Internal Audit	
An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions	
Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Developing and Managing Contracts	
Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives:	
Making implementation matter	Oct 2006
Legal Services Arrangements in Australian Government Agencies	Aug 2006